THE AMERICAN APPROACH TO INTERNATIONAL TRADE 1945 THROUGH 1970

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by

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*A thesis submitted to the
School of Government and Business Administration
of
The George Washington University
in partial fulfillment of the requirements for the
Degree of Master of Business Administration*

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JUNE 1971

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CHAPTER I

INTRODUCTION

Background

The controversy revolving around Congressional consideration of the "Nixon Trade Act of 1969" once again drew the nation's attention to our foreign trade policy. With the eventual shelving of the "Trade Act of 1970" (the same bill after months of testimony, heated debate, and many revisions) by the Senate just prior to the close of the 91st Congress, interest in foreign trade temporarily cooled, but has not been extinguished. Recently, the Japanese textile industry agreed to limit their total exports of cotton, wool, and synthetic fiber products to the United States to the 1969 level, with a stipulated 5 per cent growth factor the first succeeding year and 6 per cent the following two years. These agreements were reached privately with Chairman Wilbur D. Mills (D-Ark.) of the prestigious and powerful House Ways and Means Committee. President Nixon flatly refused to accept these self-imposed restrictions, stating concern for the southern textile industry as the reason, but instead threatened to invoke either the national security

clause of the Trade Agreements Act, or the escape clause of the General Agreement on Tariffs and Trade, in order to reduce Japanese textile imports.

In the meantime, Chairman Mills has reintroduced the trade bill to the 92nd Congress. It is just a matter of time before it comes to the floor and is once again the subject of heated partisan debate--a debate that has been raging in this country since 1786, or before--that of "free trade" vs "protectionism."

Foreign trade has always been a primary issue in this nation's commercial policies. Indeed, the second statute adopted by the first Congress was a tariff act. Every President and every Congress, particularly in modern times, has had to concern themselves with some aspect of foreign trade. And since we have been predominantly an exporting nation since 1874, we have generally supported the theories of free trade. Of course there are always those, oftentimes a majority, who oppose freer trade for specific reasons, usually economic such as protection for one particular industry, e.g., the textile industry, or for maintenance of a particular expertise in the interests of national security.

Since 1934, when the very liberal and far-reaching Reciprocal Trade Agreements Act was made law, it has generally been held that United States' foreign trade policy has been a liberal one. No general tariff acts have been passed, as they were in 1909, 1913, 1921, 1922, and 1930, although specific tariffs or other restrictions have been enacted. Each President has professed his belief in, and support for, an expanded world trade and all of our leading

economists have taught us that "comparative advantage" will work best for us if it is practiced world-wide and liberally. Indeed, it has been written, and nearly come to be an accepted article of faith, that the United States is the world leader in the advocacy and practice of free trade.

A little reflection, however, will tell us that we still have tariffs; we still debate over the damage done to domestic industry by foreign imports; we still have laws against certain countries' products. If free trade is so good, and is so universally liked, why do we have restrictions at all?

That foreign trade is an economic subject there can be no doubt. It is that, and it is also a financial subject, a marketing subject, a geographical subject, and a logistics subject. But it is also something more--it is a political subject as well. And politics, more often than those other disciplines, control the direction and determine the policy for foreign trade.

> It has not been recorded that the dramatic appeal made by a thousand leading economists to Mr. Hoover in 1930, asking him to veto the Smoot-Hawley Bill, caused that gentleman to hesitate before approving the bill. Without the least desire to belittle the labors of scholars who have studied consequences of the protective tariff policy, I make bold to express the opinion that these studies have neglected an important phase of the subject. The tariff is not an economic question exclusively. It is a political problem as well.[1]

Objectives

This paper will examine, in broad terms, United States' foreign trade policies since the end of World War II.

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[1] E. E. Schattschneider, Politics, Pressures and the Tariff (Hamden, Connecticut: Archon Books, 1963), p. vii.

Subsidiary objectives are:

to analyze announced foreign trade policies of Presidents Truman, Eisenhower, Kennedy, Johnson, and Nixon;

to examine major federal legislation dealing with foreign trade policies since World War II;

to enumerate the size and trends of United States' foreign merchandise trade, particularly imports, from 1945 through 1970;

to review this country's major barriers to trade, tariff and non-tariff, with respect to size and trends; and

to discern trade patterns and programs with the larger trading blocs of the past twenty-five years.

The primary objective is:

- to determine if the economic and trade implications of United States' policies, from 1945 through 1970, as contained in Presidential programs and legislative acts, have been those of "free trade" or have veered toward "protectionism."

Research Question

The goal of this paper will be to answer the following primary research question:

- Has the United States, since the end of World War II, pursued a "free trade" policy as exclusively and as vigorously as is generally believed?

Subsidiary questions contributing toward the answer of the primary question are:

What was the United States' position at the end of World War II with respect to tariffs and other trade barriers?

What have the five administrations in power since 1945 professed their trade policies to be?

What major legislation and international agreements have shaped U.S. foreign trade policy since 1945?

What progress has been made in the reduction of tariffs and other barriers?

What, if any, major trade partners have influenced our trade policies, and in what respect? and,

What have the economics of our foreign trade been?

Definitions

Throughout this paper several terms will be used over and over again; therefore, to insure precise interpretation of their meaning the following definitions are given. The statements specify what the term is and how it will be used for the purposes of this analysis. Any other interpretation, and undoubtedly there are many, is invalid for the objectives pursued in this study.[2]

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[2]Information for the definitions presented was derived from: Frank Henius, Dictionary of Foreign Trade (2nd Ed; New York: Prentice-Hall, Inc., 1947) and U.S., Department of Commerce, Guide to Foreign Trade Statistics: 1970 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, 1970).

concession. . . . . a commitment, arrived at by reciprocal trade negotiations, by one trading partner to another to not impose trade restrictions on a given product higher than that agreed upon in the negotiations. The concession may take several forms: the binding of the present tariff rate, the binding of duty-free status, the reduction of the tariff rate, the removal or increase of existing quotas, liberalization of foreign exchange controls, removal or lessening of restrictive customs regulations, etc.

exports . . . . merchandise leaving the U.S. customs area, without regard to the method of financing, and without regard to whether or not the exportation takes place in connection with a commercial transaction, excluding shipments between the U.S. and Puerto Rico and the U.S. and its outlying possessions, shipments to the U.S. armed forces for their own use, shipments in transit through the U.S. from one foreign country to another, gold and silver bullion, electrical energy, household and personal effects, and, most importantly, re-exports of foreign merchandise originally imported but not enhanced further in value.

foreign trade. . . . . the exchange of merchandise between countries.

free trade . . . . the exchange between countries on the basis of a tariff system that does not distinguish between articles produced domestically and articles produced abroad and consequently

either taxing both (by the duties or taxes imposed upon them) on an equal basis and to an equal extent or exempting both from all taxation (or payment of duties).

imports . . . . those entries of merchandise into the U.S. customs area (the fifty states, District of Columbia, and Puerto Rico) for immediate consumption and the withdrawal from warehouses for consumption (in other terms, "imports for consumption") without regard to whether the importation involves a commercial transaction, which therefore reflect the total of commodities entered into U.S. consumption channels, and excluding entries into warehouses.

merchandise imports and exports . . from the importer's and customs point-of-view "merchandise" represents and includes goods, wares, and chattels of every description capable of being imported, except household and personal effects and other articles which are exempt from duty.

protectionism. . . . . the system or policy adopted for protection (from competition from foreign sources or by foreign shippers) of native goods or materials. Duties are established on imports of foreign goods of a similar nature or character, thereby making competition by foreign shippers difficult or impossible. It is, therefore, a tariff policy for the protection of home industries or production and can also be made possible by embargoes or bounties.

Limitations

"No satisfactory method has yet been devised for measuring with any degree of precision the restrictive effects of tariffs and other barriers to the international movement of goods."[3] So stated Howard Piquet, the noted authority on tariffs and trade.

Because of the nature, scope, and time factors of this subject, this analysis can be neither exhaustive nor all inclusive. At best, it can deal only in broad generalities. Detailed analysis of each piece of trade legislation and of each round of trade agreement negotiations is not an objective. Rather, how the conclusions reached, agreements made, and laws passed, fit into the general pattern of policy pursuit is the theme. Further, in an analysis of this type, many proposals that never reached final passage are encountered. These will not be considered except where pertinent to the expression of policy that was eventually adopted or of a program which may have been enacted piecemeal. In general, only programs and legislation that were in fact enacted will be considered. Otherwise, a many volume work would be insufficient to contain the facts.

One of the most important distinctions that must be made is precisely what is meant by "foreign trade." The possible inclusions in the term are so broad that even within the outline described above, specific limitations on the scope of a study in that field must be made. The term can include

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[3]Howard S. Piquet, Aid, Trade, and the Tariff (New York: Thomas Y. Crowell Company, 1953), p. 11.

international monetary transactions, military assistance, foreign aid programs, foreign commercial investments or foreign exchange programs. This paper however, is concerned only with merchandise imports and exports--that portion of the national income accounts equation usually expressed as (X - M).

When quantitatively comparing a nation's foreign trade from year to year several problems arise, including inflation and the changing nature of articles traded. Therefore, specific comparisons between, for example, 1945 and 1970, must be used with caution. Money values will be in current (yearly) prices. The purpose of such aggregate statistics will be to provide gross comparisons, trend indicators and economic reference points. They are not to be construed as absolute indications of comparative trade levels.

This country's foreign trade will not be compared with any other country's in this paper. Such comparisons have inherent in them the same hazards as chronological comparisons, and also several more. Different countries use different statistical methods, quantify commodities differently, or simply have so many complicated and varied differences in their monetary and commercial systems, that comparisons with this country would require voluminous conversions and explanations. Further, the purpose of the paper, as stated, is to examine what has been done here--not whether or not we have done more than someone else.

Finally, no specific tariffs or commodities will be examined in detail.

Several examples will be cited in the course of illustrating various points, but the purpose of such examples will be to demonstrate various policies or trends. Detailed comparisons of restrictions on the trade of one item with respect to another would serve no purpose in an examination of overall policies and programs.

Sources of Data

The data used were obtained primarily from the U.S. Tariff Commission Library, but secondary locations were other libraries in the Washington, D.C. area, i.e., The George Washington University Library, the D.C. Public Library and the Army Library in the Pentagon. Sources were published materials, Congressional hearings and analyses, and to a great extent, U.S. Department of Commerce statistics. No personal interviews or primary research were conducted because of the conviction that policies and programs can best be analyzed in perspective by published results of what actually has happened.

Methodology

This is an "historical research paper." That is, the trade policies of this nation since 1945, as demonstrated by executive program and federal legislation, will be examined in historical perspective. The formulation of policies by the Presidents and the Congress, and their economic and trade results, will be traced, touching back to 1934, but essentially beginning in

detail from 1945, to analyze the trend and seek out the essential character of the results. Specific statistics will be presented and used to demonstrate aggregate trade levels, and from these statistics inferences can be drawn which support or belie the policy pronouncements. But these statistics are only an adjunct to provide a quantitative measure of the results of trade policies. The essential analysis is the synthesis of twenty-five years of policy and program. From that synthesis will be drawn a conclusion--"free trade" or "protectionism." The final conclusion will be one of subjective weighing of what has been, with that elusive quantity, what might have been.

The analysis will be inductive.

Order and Nature of Presentation

This paper has been divided into four substantive chapters, plus introductory and concluding chapters. The material and data utilized separated naturally into four categories, and research was conducted on one of those categories, the material for one chapter, at a time. Within each of those categories, the material was pursued, and has been presented, in chronological order. The rationalization behind this course was that historical research can best be carried out chronologically.

The four substantive chapters are: As World War II Ended, Presidential Programs and Legislative Actions, The Trade Agreements Program and Trading Partners and Trade Levels.

Thus, this paper will trace this country's foreign trade policies and results from our position immediately following World War II, through six rounds of GATT negotiations and the development of trade with the other major trading blocs of the world, e.g., Japan and the EEC. It will contrast known trade results with those trade programs and policy pronouncements that our leaders have made. The conclusions reached will be a synthesis of those comparisons, arrived at with subjective analysis.

Appendix A

Throughout this paper reference will be made to import and export aggregates, average tariff values, and other statistics related to our foreign trade. In the interests of brevity and of readibility, Appendix A is offered. Many statistical references will be taken from this table. Footnotes will not be used to identify such statistics, but where a number is taken from another source, or when a figure is in disagreement with the table, an appropriate notation will be made.

CHAPTER II

AS WORLD WAR II ENDED

Economic Chaos

"War . . . ought not to be followed as a business . . . ." wrote Machiavelli early in the sixteenth century. His words rang true even in mid-twentieth century, for the world's business faltered and nearly collapsed during World War II. All normal channels of trade were broken or altered to meet the requirements of insatiable war machines. All the countries, particularly the principals, among which the United States was primary,

> . . . engaged in economic warfare as a supplement to military warfare: we bought goods that we didn't need to keep our enemies from getting them; we supplied goods to other countries to obtain from them the things we did need and to insure ourselves of their support; we denied goods to other countries to penalize them for not cooperating with us and to prevent them from aiding our enemies.[1]

The majority of all goods traded was for military purposes. International trade became an instrument for, and an instrument of, war.

Only the United States, of all the industrial giants of the pre-war world,

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[1]Clair Wilcox, A Charter for World Trade (New York: The Macmillan Company, 1949), pp. 9-10.

remained unscathed. Our industrial prevalence and economic dominance soared to unprecedented levels and were omnipresent. One-third of the world's exports emanated from these shores, and one-tenth of the imports arrived here. More startling, however, is the fact that fully one-half of the world's output of manufactured goods was produced by the United States. For obvious reasons, exports exceeded imports, $10.309 billion to $4.098 billion. This lack of balance was reflected in every category of goods, as well as services. "We were in the position of selling everything to everybody and buying too little of anything from anybody, of being creditor to all and debtor to none."[2]

The imminent results of this chaotic, topsy-turvy situation were predictable. Importing nations around the globe acted eventually to increase restrictions on imports and enacted tariffs on all but essential survival items. Although 1945 and 1946 saw a general lifting of wartime restrictions and the welcoming of needed foodstuffs and fuels, 1947 ushered in a general reversal as nation after nation realized its own industry was struggling to revive and survive in the face of staggering imports, particularly from the United States. Also, the imbalance in financial positions became alarming.[3] A long series of import restrictions followed, and, as the world's exporter, the United

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[2]Ibid., p. 10.

[3]Henry Chalmers, World Trade Policies: the Changing Panorama, 1920-1953 (Berkeley and Los Angeles: University of California Press, 1953), pp. 328-419.

States was the most severly affected. An additional factor influencing world trade patterns was the rising demand of Americans for foreign produced goods. The restrictions of the war years whetted the appetites of Americans, and when foreign products were introduced to the marketplace, they were snapped up.[4] The result of these coincident happenings was a sharp decrease in exports and a rise in imports in 1948.

Throughout this hectic postwar period however, the Truman Administration, and other trade dependent nations, were conducting conversations and, eventually, negotiations around a farsighted and optimistic ideal: the International Trade Organization (ITO).[5] The proposals that culminated in these discussions had their initiation in 1941 as a result of Anglo-American talks. In 1943 the proposals were submitted to other nations, and in December 1945, the United States invited several other governments to partake in negotiations beginning in 1947. As a result of certain initiatives by the United Nations, these proposals were eventually formed into a "Suggested Charter for an Interantional Trade Organization of the United Nations."[6] An outgrowth of the international conference called to formulate

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[4]John Parke Young, The International Economy (New York: The Ronald Press Company, 1951), p. 45.

[5]ITO was one of three organizations envisioned as restructuring post-war international economics, and at the same time avoiding the horrors of the post-WWI era. The International Bank for Reconstruction and Development (IBRD)--more commonly known as The World Bank--and the International Monetary Fund (IMF) faired better than ITO and have been operating since 1946 and 1947 respectively.

[6]Wilcox, Charter for World Trade, pp. 37-50.

ITO was the signing of the General Agreement on Tariffs and Trade (GATT) by twenty-three nations at Geneva in August 1947. The "Charter," and with it ITO, suffered a fate common to many far-reaching and idealistic proposals. While it was signed by fifty-three nations at Havana in March 1948, it was shelved by the House Foreign Affairs Committee in 1950 and, for all intents and purposes, killed.[7]

Tariff Liberalization

The "Smoot-Hawley" Tariff Act of 1930 raised tariffs on imports into the United States to their highest level in history. Duties on dutiable imports amounted to 59 per cent of value in 1932, and imports were a mere $1.3 billion, compared to $1.6 billion in exports, both levels lower than they had been since prior to 1910.[8] Even today the majority of tariff legislation in effect still stems from the Tariff Act of 1930. The "protectionists" were very strongly in control during the first third of the century, and with the onset of the depression it appeared as though they would enforce even harsher restrictions.

The Roosevelt Administration, led by Secretary of State Cordell Hull, sought to reverse this policy and to open the gates of international trade.

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[7] Congressional Quarterly Service, Congress and the Nation, 1945-1964: A Review of Government and Politics in the Postwar Years (Washington, D.C., Congressional Quarterly Service, 1965), p. 195.

[8] Ibid., p. 187.

Secretary Hull proposed that Congress delegate some of its Constitutional power to "regulate commerce with foreign nations" to the President by permitting him to negotiate with other nations tariffs and certain other import restrictions. He proposed that any reductions of restrictions or tariffs resulting from these negotiations would be accomplished by reciprocal executive agreements, and that these agreements, unlike tariffs or commercial treaties, would not need Senate ratification. Of course the "protectionists," particularly the Republicans in Congress, fought the proposal but the persuasion of President Roosevelt and Secretary Hull, and the power of the Democratic Congress, resulted in the passage of the Reciprocal Trade Agreements Act of 1934.

This Act is a milestone in foreign trade legislation, and it is the foundation, in America as well as the rest of the "free world," upon which free trade advocates have built their case since. It completely changed the complexion of this nation's tariff policy. Reciprocal, rather than unilateral, reductions were to be the vehicle by which tariffs would be lowered. They were to be bargained down. Further, reductions would be extended to other nations by liberal interpretation of the "most-favored-nation" principle. The Act stated that concessions resulting from negotiations and mutual agreements should also be granted all foreign countries, provided only that they did not discriminate against American trade. In more specific terms, the Act authorized the President:

1. To enter into foreign trade agreements with foreign governments, and

2. To proclaim such modifications of existing duties or other import restrictions, or such additional import restrictions or such continuance, and for such minimum periods of existing customs or excise treatment of any article as might be appropriate to carry out the agreements made.

The authority of the President was limited by a requirement that no duties could be increased or decreased by more than 50 per cent of any existing rate of duty and that no article could be transferred between the dutiable and the free lists. Every agreement under the act could be terminated three years after entry into force. 'If not then terminated' they were 'subject to termination thereafter upon not more than six months' notice.' In other words, if not so denounced they were to continue indefinitely.

The act provided that new agreed duties should 'apply to articles, the growth, produce, or manufacture of all foreign countries, whether imported directly or indirectly,' except in cases of countries that discriminated agains the United States. Specific exception was made of the Cuban-American preferences that had existed since 1902, but otherwise the act itself incorporated the principle of unconditional most-favored-nation treatment.

The act was not drawn on free trade principles, and there was no reference to the classical doctrine of comparative advantage. The authority it granted was 'for the purpose of expanding the foreign markets of the United States.' There was no specific mention of the interests of the consumer, although this subject was prominently discussed in both congressional and public debates. But in terms of the act itself, the President had to find before taking action that existing duties or other import restrictions of the United States or any foreign country were unduly burdening and restricting the foreign trade of the United States, and he was to exercise his authority 'by regulating the admission of foreign goods into the United States in accordance with the characteristics and needs of various branches of American production so the foreign markets (would) be made available to those branches of American production which require(d) and (were) capable of developing such outlets.' Before entering into any trade agreement the President was required to 'seek information and advice with respect thereto from the United States Tariff Commission, the departments of State, Agriculture, and Commerce and from such other sources as he (might) deem appropriate and in each case to give reasonable notice of intention to negotiate so that any interested person might have opportunity to present his views.[9]

Prior to 1945 the Act was extended three times without amendment; in

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[9]William Adams Brown, Jr., The United States and the Restoration of World Trade (Washington, D. C.: The Brookings Institution, 1950), pp. 16-17.

1937 and 1940 for periods of three years, and in 1943 for a two year increment. The Act became the vehicle whereby America had at long last reversed its historical policy of higher and higher protective tariffs, and it opened the door for meaningful progress toward true world-wide free enterprise, competition, large-scale multilateral trade and improved living conditions for all mankind.

The Trade Agreements Extension Act of 1945

Shortly before his death, President Roosevelt urged Congress to extend the 1934 Act once more, but in addition to provde extended tariff reducing powers. Most of the reductions authorized by the Act had been exhausted and imports had increased from $1.636 billion in 1934 to $4.098 billion in 1945. After President Roosevelt's death the Truman Administration continued to seek the additional authority.

Opposition to the extension was growing in both houses of Congress. Part of this was due to the growing strength of the Republicans in Congress, and part was due to the feeling of many Congressmen that as long as we were at war an extension of over one year was dangerous. Debate was heated and long, particularly in the House. At one point, when the bill was in the House, President Truman sent a letter to Speaker Rayburn in which he referred to the bill as "the first order of importance for the success

of my Administration."[10] The Act was passed and contained the requested expansion of tariff cutting authority. The President was permitted to reduce tariff rates by not more than 50 per cent of the rate in effect on January 1, 1945. Thus, if a tariff had been reduced under the authority of the 1934 Act to 50 per cent of its 1934 rate, it could be further reduced to 25 per cent of that rate. A rate that had been unchanged since 1934 could be reduced by half. In addition, the 1945 Act added the War and Navy departments to the agencies that must be consulted by the President prior to tariff changes.

Non-Tariff Restrictions

Tariffs, the subject of the majority of trade discussion, legislation, and interest, constitute only one form of trade barrier. In the United States tariffs have always played the major role in trade restrictions, but even if tariffs were to be reduced to some ideal minimum, or eliminated entirely, it would represent only the first phase of an effective program to encourage expanded world trade. "Indeed, the complete elimination of tariffs would encourage the proliferation of a wide variety of the more subtle import barriers which bear the tag 'non-tariff.'"[11]

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[10] Asher Isaacs, International Trade: Tariff and Commercial Policies (Chicago, Illinois: Richard D. Irwin, Inc., 1948), p. 277.

[11] Mark S. Massel, "Non-Tariff Barriers As An Obstacle to World Trade," The Brookings Institution, A report of a conference held under the auspices of the British Institute of International and Comparative Law on July 10-12, 1964, at Ditchley Park, Enstone, Oxfordshire (Washington, D. C.: The Brookings Institution, 1965), p. 61.

Non-tariff barriers can generally be divided into "quantitative restrictions" and an amorphorous category labeled "others." The quantitative restrictions are of three varieties: embargoes, quotas, and tariff-rate quotas (those tariffs which carry with them quantitative quotas, above which the tariff rate is substantially increased). These categories do not, however, include restrictions of U.S. imports attributable to controls unilaterally imposed by supplying countries.

The "other" category of restrictions can include:

> Customs Administration
>
> Even though a country may maintain a schedule of low tariffs, its customs administration may provide barriers that are more difficult to surmount than the formal tariffs may indicate. For example, some American ad valorem tariffs are based on the United States selling prices rather than the prices paid by the importer. As a result, the duties paid may be considerably higher than the formal tariff schedule. . . . Other obstacles may be found in the procedure for setting customs classifications.
>
> Administration of Anti-Dumping Laws
>
> If a complaint has been issued charging that an import was made at unfair low prices, the resulting administrative procedures may, in themselves, set obstacles in the way of international commerce. Even when the allegation is registered, the procedures may be prohibitively expensive for the exporter.
>
> Protection of Industrial Property
>
> In addition to the conventional operation of patent and trade-mark laws, such countries as the United States permit the domestic producer to institute a procedure in 'unfair competition' in order to obtain a decree denying entry of patented products or goods made by patented processes . . . .
>
> Health and Safety Rules
>
> Great variety in the minimum standards employed in different countries may compel a producer to comply with so many diverse regulations that it curtails his export opportunities. Administrative requirements may make it tedious and expensive to export. . . .
>
> Labelling Requirements
>
> A requirement may be so detailed that it provides a practical impediment for imports.

Government Purchases

When a government purchases from its own nationals exclusively, it clearly restrains the free movement of goods across its borders. Similarly, if it awards research and development contracts to its own citizens exclusively, it gives those nationals strong, often unassailable, positions as future suppliers.

Subsidies

When subsidy is paid to domestic suppliers, it may block imports as effectively as a tariff. Conversely, when a subsidy is paid on exported goods, the exporter has a competitive advantage, and the subsidy may invite other countries to retaliate with new trade bars.

Compulsory Preferences

A number of methods are employed to compel the use of domestic products in addition to outright quotas and embargoes. For example, some mixing regulations provide that a minimum percentage of home-grown wheat must be used in grinding flour.

Taxes

. . . Turnover taxes may take a larger tool from imported goods; tax rebates on exports may induce other countries to take countervailing measures, such as off-setting levies on imports; graduated taxes may penalize foreign goods; differential tariffs, charging the higher rate on goods which the domestic industry can produce. . . .

Import Permits

. . . can be used as a flexible valve. In some countries import permits are issued on the recommendation of committees of domestic companies in the related industry.

Export Controls

A nation may have grounds for believing that new barriers will be executed against its goods if its exports to another country are too high.

Restrictive Business Practices

When all else fails to blunt the edge of international competition, a number of techniques may be applied by private industry. Transnational agreements may assign markets of certain countries to specific manufacturer's exclusively. Similar results can be obtained through domestic trade boycotts.[12]

Immediately after the war, but not including remaining wartime restrictions, quantitative barriers imposed by legislative act were applied to

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[12]Massel, "Non-Tariff Barriers," pp. 61-67.

a wide range of goods including some agricultural products (cotton, wheat, etc.), animals for livestock, non-migratory birds, salmon, and of course obscene materials, narcotics and the like. Quotas arrived at by agreement with other nations included furs, coffee, and sugar; and tariff-rate quotas covered over a dozen other items such as cattle, fish, watches, cigars, etc. Separate legislation covered trade with the Philippines.[13] Exports were restricted on many of the same products that had import restrictions placed upon them, and on products restricted in quantity by this country in return for voluntary restrictions by other nations. Other restrictions in effect at the time, of course, are impossible to measure or even estimate, but it is probably valid to assume that they did not constitute a major impediment to trade immediately after the war. With the signing of GATT in 1947, quantitative restrictions were prohibited (Article XI) except under certain circumstances.

An Era of Hope

As the war ended, all logical indices pointed toward a bright future in the field of international trade. The year 1945 witnessed the passage of the most liberal trade agreements act yet, and the lifting of most of the wartime restrictions. Imports into the United States were valued at $4.098 billion,

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[13] Howard S. Piquet, "Quantitative Restrictions on Foreign Trade Imposed by the United States," Legislative Reference Service, Library of Congress (Washington, D.C.: Library of Congress, 1947), pp. 1-3.

an all time high, and only 32.9 per cent of those were dutiable, an all time low. The ratio of duties collected to ad valorem dutiable imports was also at its lowest, 29 per cent.[14] This trend, coupled with a definitely free trade administration and Congress in power, and a rising demand by Americans for foreign produced goods indicated that free trade was, perhaps, at last a real possibility. What has happened in the intervening years, 1945 to 1970, will be pursued in the following chapters.

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[14]Osward Garrison Villard, Free Trade-Free World (New York: Robert Schalkenbach Foundation, 1947), pp. 42-44; and, Congressional Quarterly Service, Congress and the Nation: 1945-1964, p. 187.

CHAPTER III

PRESIDENTIAL PROGRAMS AND LEGISLATIVE ACTION

Truman--Trade Expansion

In a speech he made in Dallas, Texas well after his presidency, Harry Truman said:

> . . . it is certainly a historical fact and not a matter for partisan debate that the Democratic party has always opposed high tariffs, and favored the expansion of international trade. This position has been taken not out of any perverse idealism, but simply on the ground that it is good for the country.[1]

His memoirs are laced with similar protestations of his belief in free trade. For example: "The lesson in history, I said, was plain: Freedom of international trade would provide the atmosphere necessary to the preservation of peace."[2] He was destined to struggle mightily with a Republican, and in many respects "protectionist," 80th Congress (1947-1948) but managed to fend off anti-trade legislation, in some instances by use of the veto, and to

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[1]Harry S. Truman, "The Free World and Free Trade," The JNO. E. OWENS Memorial Lecture, 1957 (Dallas, Texas: Southern Methodist University Press, 1963), p. 6.

[2]Harry S. Truman, Memoirs, Years of Trial and Hope, Vol. 2 (Garden City, N.Y.: Doubleday & Company, Inc., 1956), p. 112.

see some of the most significant foreign trade legislation ever passed come to fruition during his administration.

As mentioned in Chapter II, negotiations were being conducted concerning the establishment of an International Trade Organization during 1947 and 1948. These negotiations led to the signing of GATT, the bedrock of international tariff reduction, which will be discussed in Chapter IV. It is important to realize, however, that the agreements initially covered over half the existing world trade. In addition, the Truman Administration, recognizing the desparate situation of Great Britain and Europe, initiated the series of aid agreements and loans which eventually constituted "The Marshall Plan," named after General George C. Marshall, Truman's Secretary of State (1947-1948) and Secretary of Defense (1950-1951). Since those programs more appropriately fall under the heading of "foreign aid" rather that "foreign trade" they will not be discussed in detail in this paper. It is significant, however, that the Truman Administration was active on many fronts in an effort to reorganize, revitalize, and realize foreign trade.

In 1946, Congress passed the Philippine Trade Act, designed to govern trade with the islands for the next twenty years. This law provided duty free entry of U.S. and Philippine products to the other country until 1954 when tariff rates of each country would begin to be applied, rising to the full rate by 1974. It also established quotas on sugar, cordage, rice,

cigars, tobacco, coconut oil and buttons, and authorized the President to establish other quotas as he deemed necessary.[3]

The Republican Congress of 1947-1948 caused President Truman great frustration in many areas, but foreign trade was one of the worst. With the ITO negotiations in progress in Geneva, Congress urged the President to initiate several steps designed to limit future trade liberalizations. By Executive Order, Truman approved two such recommendations: inclusion of an "escape clause" (the provision to withdraw or modify tariff concessions on particular goods if increased imports of such goods cause serious injury to domestic industries producing those goods) in all future agreements and the requirement for the Tariff Commission to investigate complaints of injury to an industry caused by imported goods.[4] The escape clause was to be a controversial issue in foreign trade legislation for many years to come.

The forthcoming elections caused much scrambling and sparing between Congress and the President in 1948. Congress extended the expiring Trade Agreements Act, but for the first time limited it to a one year extension. In addition, the "peril point" clause (the provision that before entering into trade agreement commitments, the President must submit a list of the items to be negotiated to the Tariff Commission, which in turn was required to

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[3] Congressional Quarterly Service, Congress and the Nation, 1945-1964, p. 193.

[4] Ibid., p. 194.

investigate, including public hearings, and report to the President the maximum decrease in duty rates that could be made to each item without injury to domestic industry) was for the first time written into law as a part of the 1948 Trade Agreements Extension Act. In his own right, President Truman can be justly accused of keeping an eye on the elections because of his delay in submitting the ITO charter.[5]

After the elections, the Democrats set about reversing many of the 80th Congress'es directions. One of the more obvious was the Trade Agreements Extension Act of 1948. The 81st Congress repealed the 1948 Act, including the peril point provision, and extended the original Act, as amended in 1945, for three years. After the passage of that extension, the President, by Executive Order, established the procedures to be followed in concluding trade agreements. Essentially, these were the same as those in effect before 1948. As before, the Tariff Commission was designated as the agency to investigate escape clause matters in previously negotiated trade agreements.[6]

In April 1949, the President submitted the proposed ITO Charter to Congress. Strong opposition was raised throughout the business community, primarily on two counts: "the Charter is a codification of malpractice, and

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[5]Ibid.

[6]U.S., United States Tariff Commission, "Annual Report of the United States Tariff Commission, 1949" (Washington, D.C.: Government Printing Office, 1949), p. 11.

it is a victory for economic planning."[7] The House Foreign Affairs Committee held hearings on the Charter in 1950, but it was never reported out of committee. The year before, 1949, saw the negotiation and ratification of the International Wheat Agreement between forty-one countries which stipulated amounts and prices of wheat to be traded for four years hence. This agreement has been extended and modified several times, backed up by subsidies for wheat exporters, and eventually expanded into the International Grains Arrangement (in 1968). It has been a significant instrument in U.S. farm policy since its original enactment.[8]

The beginning of the 1950s brought with them increased discussion and general criticism of trade policies.[9] Several bills were introduced which were aimed at reductions in specific commodities or in extension of existing controls. For example, a bill to increase the borrowing authority of the Commodity Credit Corporation which would have effectively restricted some agricultural imports was introduced but eventually watered down; fur imports caused several "anti-fur" amendments to be proposed, but they too were

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[7] Brown, The United States and the Restoration of World Trade, p. 362.

[8] M. A. G. van Meerhaeghe, International Economic Institutions (New York: John Wiley and Sons, Inc., 1966), pp. 190-197.

[9] An observation can be made here that in recent U.S. history the early years of a decade nearly always bring with them a revival of interest in foreign trade policies as evidenced by the following legislation: the Anti-Dumping Act of 1921 and the American Selling Price Act of 1922; the Tariff Act of 1930 and the Trade Agreements Act of 1934; lend-lease agreements and other wartime measures in 1940-1941; the more stringent Trade Agreements Extension Act of 1951; the Trade Expansion Act of 1962; and the current "Nixon Trade Bill" that has been under consideration since November 1969.

defeated or shelved; and a sub-committee of the Senate Public Welfare Committee recommended a substantial increase in oil tariffs, which again received no immediate action.[10] But the pressure was building, and the Republicans were enlisting enough Democratic defectors from the liberal trade ranks to succeed in passing several restrictive measures in 1951.

The Trade Agreements Extension Act of 1951 was an extension for two years. Two important changes were made by that Act. First, the peril point procedures were reinstated, but with the significant modification that the Tariff Commission was required to submit peril point findings to two committees of Congress when the President chose to disregard them. This was a subtle change, but reflected increased concern of Congress over their ability to control trade policies. The second major change was the inclusion of specific escape clause legislation. Previously, instructions to the Tariff Commission concerning escape clause provisions were contained only in Executive Orders. These orders had given the Commission considerable leeway in determining just when an investigation was warranted. The 1951 Act required that the Commission undertake such investigations whenever duly requested, plus many other detailed requirements.[11] Both the peril point and escape clause provisions have remained part of our foreign trade policy ever since.

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[10] Congressional Quarterly Service, Congress and the Nation, 1945-1964, p. 195.

[11] American Enterprise Institute, Special Analysis, "Foreign Trade," (Washington, D.C.: American Enterprise Institute, 1962), pp. 26-36.

Other provisions of the 1951 Act included a prohibition against trade agreements inconsistent with farm import restrictions; a ban on Russian and Communist Chinese furs; and a directive for the President to suspend or withdraw reduced trade agreement rates of import duties with the Soviet Union and other Communist dominated countries. The Trade Agreements Extension Act of 1951 was the first of the Extension Acts to impose serious restrictions on the President's ability to administer the trade agreements program. It was, indeed, the first of the Extension Acts to be truly protectionist in flavor.[12]

Another significant piece of legislation in 1951 concerning foreign trade was the extension of the Defense Production Act of 1950. Congress extended import controls on fats and oils, and added peanuts and dairy products to the list. Following enactment of the bill (reluctantly signed by the President) the Secretary of Agriculture embargoed imports of butter, butter oil and dried milk, and placed quotas on cheese. The latter action caused serious objections from several GATT member nations.

No major trade policy changes were made during President Truman's last year in office. The cheese quotas were increased by 15 per cent and a tuna quota bill was defeated.

From 1945 through 1951, imports rose from $4.098 billion to $10.817 billion, while equivalent ad valorem rates on dutiable imports decreased from

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[12]Joe R. Wilkinson, Politics and Trade Policy (Washington, D.C.: Public Affairs Press, 1960), p. 66.

29 per cent to 12.5 per cent. During the same period exports rose from $10.309 billion to $14.885 billion. The most significant statistic, however, is the ratio of imports to GNP, which rose from 1.93 per cent in 1945 to 3.29 per cent in 1951. President Truman advocated free trade throughout his Presidency. The record would seem to indicate that his administration was successful in reducing the barriers.

Eisenhower--Years of Conflict

As the Republicans took control of both Executive and Legislative branches of government for the first time in twenty years, the expectation was for a definite reversal of the expansionist trade policies of the Democrats. Congress had grown increasingly more dubious of Presidential powers over tariff policies. They had extended the Trade Agreements Act for only two years in 1951 and had written into it more protective safeguards than had ever been included before. Republicans in Congress hung on stubbornly to the old-time protectionist beliefs, and were achieving moderate success in winning over some Democratic sympathizers, particularly from the south.[13] Also, since General Eisenhower was a comparative unknown factor where foreign policy was concerned, it was strongly felt that the influence the eastern-financial interests enjoyed with him would work to carry him away from liberal

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[13]Paul H. Douglas, America in the Market Place (New York: Holt, Rinehart and Winston, 1966), p. 99.

trade advocacy. In all, it was not a promising time for free trade proponents.

As President Eisenhower settled into his new job, one of his first major policy decisions was what course to follow in foreign trade. He decided, in the face of continued international tensions and a party backing of traditional protectionists, to follow a moderate course.

> The administration, to be sure, never proposed to blow a Joshua's trumpet which would bring all tariff walls crashing down. We recognized that this course could visit hardship on many workers and their families. We recognized, too, that the Soviet threat and the demands of free countries' national security impaired the free working of pure economic law by requiring individual countries to be at least partly self-sufficient, able to produce goods for their armies and navies which other countries, if war should end forever, might better produce for them. To go full out in the direction of free trade, I insisted, the world would need permanent peace.
>
> In the circumstances, the 1951 Trade Agreements Act (sic) then on the books seemed to me adequate, although I recognized that certain features might be modified. On April 7 (1953) I therefore sent a special message to the Congress recommending renewal of the act in its present form for one year. That year would give the administration time to undertake a broad study of American foreign-trade policy in its entirety--a study to be conducted by a joint Executive-Legislative commission on foreign economic policy, which I also asked the Congress to establish by legislation.[14]

This course seemed to appease free trade advocates fairly well, but the protectionists were far from satisfied. Restrictive bills were introduced into the House and debated at length. Targets for the protectionists were an enlargement of the Tariff Commission, a requirement for the President to follow the Commission's peril point and escape clause recommendations, and new quotas on metal and petroleum products. In the end, the President's

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[14]Dwight D. Eisenhower, Mandate for Change 1953-1956 (Garden City, New York: Doubleday & Company, Inc., 1963), p. 209.

proposals won out. The Act was extended for one year and the Commission on Foreign Economic Policy (Randall Commission) was appointed. A phenomenon that was beginning to appear during this time, however, was the splitting of both houses of Congress, not along party lines, but rather into definite "free trade" and "protectionist" blocs.[15]

Other actions which had some bearing on foreign trade in 1953 were the Customs Simplification Act, which revised and liberalized many customs regulations which had not been modified since 1938; the lapsing of the "cheese amendment;" a new International Wheat Agreement between forty-five countries which extended the 1949 Act; and the President's proclamation fixing maximum imports of dairy products.[16]

The Trade Agreements Act was due to expire once again in 1954. The President requested a three year extension, as recommended by the majority report of the Randall Commission, but because it was an election year and because the country was experiencing a general recession, he indicated his willingness to accept another one year extension. This was passed, with little controversy by Congress.

The Randall Commission reported out in 1954 with several major recommendations: a 5 per cent per year further tariff reduction authority for the President along with the three year extension of the Trade Agreements

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[15]Congressional Quarterly Service, Congress and the Nation, 1945-1964, p. 197.

[16]Ibid., pp. 197-198.

Act; further simplification of customs regulations and procedures; amendment of the Buy American Act of 1933 to give the President wider latitude in national security matters; a repeal of the requirement to transport foreign aid shipments in U.S. bottoms; and renogotiation of a charter for an organization to supervise GATT, in other words, a replacement for the still-born ITO. The President requested only the first two of these proposals from Congress in 1954, but for the same reasons that the President was content to settle for a minimum extension, Congress granted it. They did, however, enact another Customs Simplification Act, the primary emphasis of which was to require the Tariff Commission to study revision of tariff classifications and to report in two years.[17]

After the Democrats won control of the 84th Congress in 1954, President Eisenhower decided that the time was ripe to ask them for a three year extension of the Trade Agreements Act with the right to reduce tariffs as recommended by the Randall Commission, and to approve of membership in an Organization for Trade Cooperation (OTC), which was to be the successor to ITO. OTC had been conceived in March 1955 during consultations between the same nations which had signed the ITO charter in 1948. The OTC would administer the trade rules of the GATT, sponsor trade negotiations, facilitate consultation on trade, and make recommendations on trade policy.[18]

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[17] Ibid., p. 198.

[18] Eisenhower, Mandate for Change 1953-1956, p. 499.

Congress did agree to the three year extension, with the requested expanded tariff reducing powers, and other provisions, but once again voted down membership in a world trade organization.

President Eisenhower, by this time, had taken up the cudgel of free trade and was in the paradoxical situation of having to combat a Democratically controlled Congress which was becoming exceedingly protectionist. He wrote:

> The problem of trade was constantly on my mind. In July of 1954, for example, I wrote Everett Hazlett on the danger of Mexico's possibly turning antagonistic if the United States raised its tariffs; and I criticized those businessmen who, while talking 'rugged individualism,' clung to tariffs for help,

and,

> I believed that United States membership in the OTC would be good for the country and for the Free World. Failure to assume membership, I argued, could be interpreted throughout the Free World as proof that we were insincere in speaking favorably of the need to trade.[19]

Actions, however, sometimes belied those words. The Administration ordered a 50 per cent increase in the tariff rate on imported bicycles, refused to honor the low bid by an English firm for generators for a dam project because of the Buy American Act of 1933, and told oil importers to cut their imports or face mandatory quotas. Further, the Extension Act of 1955 increased the President's authority to invoke restrictions under the peril point, escape clause, and national security provisions, while at the same time expanding the President's tariff reducing powers by another 5 per cent annually

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[19] Ibid.

for three years, or to reduce tariff rates above 50 per cent ad valorem to 50 per cent.

The years 1957 and 1958 saw President Eisenhower again attempt to persuade Congress to ratify U.S. membership in OTC. Each year his attempts were in vain. He argued that the OTC would benefit world trade while not harming U.S. interests, since it could not, as strictly an administrative organization, alter the control of Congress over U.S. trade. On the other hand, he stated membership would "provide the most effective and expeditious means for removing discriminations and restrictions against American exports."[20] The protectionists in Congress, however, saw such membership in just the opposite light and insisted, much as they had in 1949 and 1950, that such an organization would replace Congressional control and eventually be used to irrepairably damage U.S. industry. By the time President Eisenhower's third such request was forwarded in 1957, Congressional leadership was aware that such a proposal was hopeless, and just ignored it.

The Customs Simplification Act of 1953 had originally established "export values" (the price at which goods were offered for export) as the basis for customs appraisal of dutiable imports, rather than the higher of either "export value" or "foreign value" (the price at which goods were offered for sale in the country of origin), but that section had been dropped to

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[20]Congressional Quarterly Service, Congress and the Nation, 1945-1964, p. 200.

allow further study of its effects. That provision was enacted into law in 1956. Also, several obsolete articles of customs law were revised. In four years, 1953-1956, the entire customs procedures had been revised and streamlined.

Separate laws in 1956, 1957, and 1958 saw a new International Wheat Agreement approved, wool tariff exemptions enacted, and the President establishing quotas on lead and zinc. The primary interest in foreign trade in those years, however, was the newly formed European Common Market (EEC), and just how the United States should deal with it. The Trade Agreements Act was due to expire in 1958, and the issue of what new legislation should be enacted in order to cooperate, compete, and grow with EEC was discussed and analyzed beginning long before it expired.

The establishment of the EEC was in accord with long-term U.S. policy of encouraging the economic integration of Europe, but it did impose a threat to American exports to Western Europe. One of the major provisions of the EEC charter was the eventual abolishment of all internal tariffs and trade restraints and a uniform external tariff.[21]

The President's request to Congress in 1958 was for a five-year extension of the trade act "unweakened by amendments of a kind that would impair its effectiveness."[22] It included sought for authority to reduce tariffs up to 25 per cent of existing rates, a proposal supported by the Departments of

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[21]Douglas, America in the Market Place, p. 114.

[22]Congressional Quarterly Service, Congress and the Nation, 1945-1964, p. 200.

State and Commerce, and to increase tariff rates up to 50 per cent above their 1934 level if necessary to protect domestic industries, a provision it was hoped would mollify free trade opponents. The Administration considered that these steps were necessary to meet EEC competition. The debate in Congress on the proposed extension was long and arduous. Major "educational" campaigns were launched by the two opposing camps, and individual regions were provided with detailed studies of exactly how the proposals would effect their district's industry.[23]

Congress voted to extend the act for four years, until 1962, and included the other provisions substantially as they had been requested. Reduction authority was granted in three ways:

> The first method provides for a reduction of the rates existing on July 1, 1958 by not more than 20 percent. The second method provides, subject to the provision that the duty on an article can not be entirely removed, for a reduction of the July 1, 1958 rate by not more than 2 percentage points *ad valorem*. On rates under 10 percent *ad valorem*, or its equivalent, this alternative permits a greater reduction than the maximum decrease under the first method. . . . The third method provides for reduction to 50 percent *ad valorem*, or its equivalent, of a duty which is in excess of that rate. On rates in excess of 62.5 percent *ad valorem*, the third alternative method would permit a greater reduction that (sic) would be possible under the other two alternative methods.[24]

A summation is in order, since 1958 was the last of the Trade Agreements Extension Acts, of just exactly how much tariff reduction authority the President had been granted since 1934. Theoretically, with reduction powers

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[23] *Ibid.*

[24] American Enterprise Institute, "Foreign Trade," p. 7.

of 50 per cent in 1934, 50 per cent in 1945, 15 per cent in 1955, and 20 per cent in 1958, the tariff rate applying to a specific article could have been reduced to .0075 per cent of its 1934 rate. Whether or not this total reduction was applied to any commodity is not within the scope of this paper.

In 1959, foreign economic policy took on new complexities. Despite a merchandise export surplus, \$17,470 billion to \$14.987 billion, the United States' total "Balance of Payments" was a deficit of \$3.8 billion, which had followed on a 1958 deficit of \$3.5 billion. Much of this deficit was attributable to the resurgence of Western Europe after formation of the EEC, and subsequent transfer of dollar assets to the Community. Since the BOP includes many factors in addition to merchandise exports and imports, a detailed analysis of that problem is not within the scope of this study. It is important to recognize, however, that from 1959 on, foreign policy, including foreign trade policy, has been influenced, and at times dictated, by the BOP situation. President Eisenhower took several steps to combat the problem, including reduction of U.S. Armed Forces dependents overseas, urging Europeans to take over more of the foreign aid burdens, and forming of the Organization for Economic Cooperation and Development (OECD). Also, several steps were taken in an attempt to encourage increased exports and increased foreign travel in the U.S.[25]

Other actions affecting foreign trade in 1959 and 1960 were another

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[25]Congressional Quarterly Service, Congress and the Nation, 1945-1964, pp. 201-202.

extension and enlargement of the International Wheat Agreement, large subsidies to the fishing vessel construction industry, and a Presidential pocket veto of a bill requiring that imported articles be marked to indicate their country of origin when removed from their original container for repackaging.[26]

During President Eisenhower's years in office imports rose from $10,778 billion to $15.013 billion, with a smaller proportional increase in exports from $15.653 billion to $20.408 billion. Significant, however, is the fact that the ratio of dutiable amounts entering the country to total imports rose from 45.1 per cent to 59.1 per cent while the ratio of ad valorem rates on dutiable imports remained almost constant, 12.3 per cent in 1953, and 12.2 per cent in 1960. General Eisenhower entered office an unknown quantity in the world of foreign trade, and left advocating free trade while the record of his administration did not completely substantiate that advocacy.

Kennedy--The New Frontier

Even before the 1960 elections, John F. Kennedy began formulating his policy directions. He utilized task forces, committees, and, above all, experienced and influential advisors to assist him in charting his course.

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[26] *Ibid.*

Near the top of his list was a new direction for U.S. foreign trade. A task force on foreign policy, headed by Adlai E. Stevenson, presented Kennedy w with its report a week before the election. In it was included an idea, attributed to George W. Ball, for a comprehensive economic bill which would combine certain foreign aid proposals and a delegation to the President of five-year authority to reduce tariffs by 50 per cent across the board. Thus was born the seed that eventually germinated into the Trade Expansion Act of 1962.[27]

Like his Democratic predecessors, Franklin Roosevelt and Harry Truman, John Kennedy was a liberal and a believer in the theory of free trade. He stated, when presenting his proposed legislation to Congress in January 1962:

> . . . moreover, we must reduce our tariffs if we hope to reduce tariffs abroad and thereby increase our exports and export surplus. There are many more American jobs dependent upon exports than could possibly be adversely affected by increased imports. And those export industries are our strongest, most efficient, highest paying growth industries.[28]

He combined this desire for expanded trade with a keen political sense and insight. With the Trade Agreements Act due to expire in 1962, an election year, many of his advisors cautioned the President to simply seek a one-year extension of the Act as President Eisenhower had done in 1954. The President concluded, however, that events in Europe were gaining momentum, and that

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[27]Arthur M. Schlesinger, Jr., A Thousand Days, John F. Kennedy in the White House (Boston: Houghton Mifflin Company; and Cambridge: The Riverside Press, 1965), pp. 155-156.

[28]John F. Kennedy, Public Papers of the President of the United States: Containing the Public Messages, Speeches, and Statements of the President 1962 (Washington, D.C.: Government Printing Office, 1963), p. 73.

the EEC was solidifying its position at such a rapid rate that the U.S. was going to have to move fast if it were going to protect its interests. He surmised that the mood of Congress would be such as to allow passage of his program aimed at expanding his tariff bargaining powers. He therefore submitted to Congress in early 1962 a new trade bill that would replace the eleven-times extended Trade Agreements Act of 1934.

> The trade expansion fight became the major legislative issue of 1962. A country-wide campaign was organized, a potent Committee for a National Trade Policy set up; business and labor were enlisted, Congressmen pressed and persuaded. 'The two great Atlantic markets,' the President told Congress, 'will either grow together or they will grow apart. . . . That decision will either mark the beginning of a new chapter in the alliance of free nations-or a threat to the growth of Western unity.[29]

The bill was passed substantially as President Kennedy had requested. In order to placate many of the industrial organizations initially opposed to such a bill, the traditional safeguards of the escape clause and national security procedures, were written into it, but in place of the peril point clause, there was a significant new one--"trade adjustment assistance." This clause permitted the giving of financial assistance to those industries and companies which actually suffered or were threatened with financial injury as a direct result of increased imports created by lowering specific tariffs. Low interest loans could be made, and unemployment compensation could be paid to affected workers. The Randall Commission had recommended such a policy in 1954, but protectionist forces long opposed it for fear of losing one

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[29]Schlesinger, A Thousand Days, p. 874.

of their primary arguments against lower tariff rates. The provision was put into the bill as one of the condescensions to organized labor for their support. That it will ever prove to be as helpful as they had hoped is doubtful. "But the final result of this provision was highly unsatisfactory. As of March 7, 1966, not a single American worker had ever received any compensation for damages suffered by reductions in the tariff."[30]

The major provisions of the Trade Expansion Act of 1962, as it was passed, were:

- Authorized the President, in the conduct of trade negotiations between July 1, 1962, and June 30, 1967, to reduce duties by 50 percent of the 1962 level; to remove duties on entire categories of goods when the U.S. and members of the European Economic Community (at the time of negotiations) together accounted for 80 percent or more of total free world trade; to cut or remove tariffs on agricultural products not meeting the 80 percent rule if necessary to maintain or expand U.S. farm exports; and to eliminate tariffs on products currently dutiable at a rate of 5 percent or less.
- Authorized the President to withdraw concessions to any country maintaining 'unreasonable' restrictions against U.S. exports; to impose duties or other restrictions on imports from countries with burdensome restrictions against U.S. agricultural exports; to restrict imports if they threatened national security; and directed him to suspend 'as soon as practicable' any trade benefits granted since 1930 under most-favored-nation treatment to 'any country or area dominated or controlled by Communism' (meaning Poland and Yugoslava). (Mr. Kennedy withheld action on this proviso and got Congress to repeal it in 1963.)
- Required the President to submit to the Tariff Commission a list of articles on which he planned to negotiate, the Commission to hold hearings and to advise him on the probable economic effect of any tariff cut internationally and domestically; to appoint a Special Representative for Trade Negotiations as the chief U.S. spokesman in trade talks; and to establish a Cabinet-level Interagency Trade Organization.
- Authorized the President--in case of injury to domestic workers or businesses through earlier or subsequent tariff cuts--to raise tariffs, negotiate an international quota system, provide federal assistance to those

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[30]Douglas, <u>America in the Market Place</u>, pp. 126-127.

injured, or take any of these steps in combination, following investigation by the Tariff Commission; and authorized aid to firms in the form of technical assistance, loans, loan guarantees, or permission to carry back a net operating loss for tax purposes for five years instead of the usual three, and to workers in the form of unemployment compensation, counseling and retraining, travel and relocation allowances.[31]

As passed, the Act gave the President negotiating power substantially greater than ever before, and incomparably greater than that under which the Dillon Round (1960-1962) negotiators were operating. The "dominant supplier" and "adjustment assistance" clauses were new and unprecedented, and promised to provide the President the necessary working room within which to reduce tariffs and barriers to an all-time low level. If all of the authority encompassed in the bill were utilized, tariff reductions would be considerably greater than the nominal 50 per cent. The 1962 Act was considered the most liberal trade bill yet enacted.

The Trade Expansion Act was the focal point of the Administration's foreign trade thrust, and it occupied the majority of interest. It was not, however, the only foreign trade related program or legislation enacted during Kennedy's three years in the White House. In 1961, the agreement to establish the Organization for Economic Cooperation and Development (OECD) was ratified by the Senate. OECD, as agreed upon by the U.S., Canada, and eighteen Western European nations, was a consultative body designed to aid economic growth and employment in the member countries and to expand

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[31] Congressional Quarterly Service, Congress and the Nation, 1945-1964, p. 204.

world trade. The Senate added language to the ratification resolution stating that nothing in the convention added to or detracted from the powers of the President or Congress, partly to allay the protectionist fears that OECD might pre-empt U.S. rights concerning tariffs and trade.

Also passed in 1961 were bills establishing the U.S. Travel Service in the Department of Commerce whose purpose was to promote foreign travel in the U.S.; and reducing from $500 to $100 the value of duty-free articles returning citizens could bring into the U.S. Both of these acts were in response to the continuning decline in the BOP situation.[32]

In 1962 the Long Term Agreements (LTA) on cotton textile imports were reached with seventeen other countries. Designed primarily to placate the staunchly protectionist and very powerful textile industry during arguments over the Trade Expansion Act, the act permitted the U.S. to restrict the foreign share of the cotton textile market to 6 per cent. Originally covering only the signing nations, the authority was eventually extended to authorize the President to regulate non-signer imports as well. Also, the President in 1962 increased tariffs on certain tapestries, carpets, and glass products but refused to do so for ceramic tiles and baseball gloves. Even so, the EEC retaliated by raising tariffs on U.S. exports worth $27 million. And, finally, the Wheat Agreement was extended once more in 1962.[33]

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[32] Ibid., p. 203.

[33] Ibid., pp. 204-205.

The infamous "chicken war" erupted in 1963 when the EEC put its common tariff on frozen poultry--U.S. exports dropped sharply. Disagreement on the level of damage was put to a GATT panel, who decided that concessions on $26 million would be proper compensation. Tariffs were increased on brandy, trucks, dextrine, and potato starch. Also, in a continuation of his efforts to aid the cotton industry, President Kennedy proposed subsidies when the Tariff Commission rejected the use of import fees. After a year-long debate, the Congress authorized subsidies for two years, and also included wheat provisions, as well as cotton.

Finally, one other action that was in progress in 1963, was the "coffee agreement" debate. In an attempt to stabilize the price of coffee to correspond with Alliance for Progress objectives, the Administration took the lead in negotiating a five-year stabilization agreement with fifty-three other countries. Designed to keep prices from dropping below the 1962 level, the agreement required exporters to furnish certificates of origin, and importers to limit their purchases from countries not signing. The Administration backed the agreement, which had been signed in 1962, but the debate in Congress centered around the argument that it would effect higher coffee prices. Several amendments and changes to the original act were made and the discussion lasted through 1963, until it was finally defeated in 1964.[34]

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[34] Ibid., pp. 206-207; and van Meerhaeghe, International Economic Institutions, pp. 204-211.

As with many of his programs, President Kennedy's foreign trade policy was liberal and expansionist. The Trade Expansion Act that he engineered through Congress was a masterpiece of policy formulation and political acumen. That he was able to get it passed at the same time as so many protectionist or limiting bills were also being proposed is one more testimony of his ability and perseverance. It was the catalyst that led to the very successful GATT round of discussions which were named after the President.

Johnson--Pursuit of the Goal

The tragic circumstance behind the change in Presidents in late 1963 left the entire country wondering just what kind of a Chief Executive Lyndon Johnson would be. It was not long before it became quite clear that in the field of foreign trade he was destined to follow his predecessor's liberal footsteps, perhaps enlarging upon them. In his first State of the Union Message to Congress, just forty-six days after assuming the Presidency, he said:

> . . . we must expand world trade. Having recognized in the Act of 1962 that we must buy as well as sell, we now expect our trading partners to recognize that we must sell as well as buy. We are willing to give them competitive access to our market, asking only that they do the same for us . . . ;

and in his statement on economic issues in October, 1964:

> . . . The Trade Expansion Act is one of the great legislative monuments

> to President Kennedy's leadership, and this administration is fully committed to its vigorous implementation. . . . The main thrust of this administration--as of Democratic and Republican administrations for the past 30 years--will be toward trade liberalization.[35]

Since the Kennedy Round of negotiations under the GATT had been made possible by the 1962 Act and were to begin in 1964, there was little in the way of immediate policy or program that had to be accomplished. President Johnson was very pleased and proud of the 1962 bill and of the negotiations in progress. He continued to speak of forthcoming tariff reductions throughout 1965, 1966, and 1967. When the round was complete he signed the proclamation in December 1967, and said:

> Beginning January 1 our tariffs on many of the products that we import will drop in the first of what will be five annual reductions.
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> This will mean lowering prices to our consumers and lowering costs to our manufacturers.
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> This will mean bigger export sales, we hope, for American businessmen and American farmers.
>
> (All) will gain in higher wages for the workers, in more efficient factories, in rising incomes for us all, and for our trading partners throughout the world.
>
> Trade will be a critical test of our cooperation. The reduced tariffs of the Kennedy Round will give rise to many demands for protection here and abroad.
>
> We must all stand firm against short-sighted protectionism.[36]

In 1964, protectionists in the meat industry attempted to impose restrictive quotas on the importing of fresh and frozen beef, veal, mutton,

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[35]Lyndon B. Johnson, Public Papers of the President of the United States: Containing the Public Messages, Speeches, and Statements of the President 1963-64 (Washington, D.C.: Government Printing Office, 1965), Book I, p. 117; and, Book II, p. 1518.

[36]Lyndon B. Johnson, Public Papers of the President 1967, Book II, pp. 1148-1150.

and lamb, and Congress passed the measure. The President, through some maneuvering, managed to limit the quota to a 10 per cent use above the 1959-1963 level of imports, a much more liberal restriction. Congress also, in 1964, closed a loophole in existing laws which had permitted the selling of wheat to Poland and Yugoslavia.

Congress extended the Export Control Act of 1949 for four more years in 1965. The Act contained the basic authority to control exports to Communist nations and to regulate exports in line with U.S. foreign policy aims. The Administration wanted to make the Act permanent, but settled for the extension. Also, the Coffee Agreement was finally passed after being blocked in 1964. It was one of the Administration's top priorities and ratified the agreement signed by fifty-four countries in 1962.[37]

East-West trade became a serious consideration in 1965. Several factions wanted to expand trade relations with Communist countries since the market potential was vast. Nothing was done, after much discussion, in 1965, but the subject was beginning to be heard more and more. Significant programs and legislation dealt specifically with the subject in subsequent years, and it was a topic debated frequently in Congress. Details of East-West trade will be dealt with in Chapter V.

One other significant Act was passed in 1965. After heated debate, Congress agreed to authorize the President to remove tariff duties on

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[37]Congressional Quarterly Service, <u>Congress and the Nation, 1965-1968</u>, Volume II, pp. 61-64.

Canadian autos. It was designed to implement an agreement between the two countries to remove all automobile tariffs, on repair parts as well as on new cars. After heated debate the bill was passed and signed into law. The International Wheat Agreement was also continued by law, but for the first time the extension was for only one year, as it would be again in 1966.

There was no major trade legislation passed in 1966. East-West trade was an issue but the spot-light was beginning to turn toward Geneva, where the tariff negotiations were gathering momentum. Protectionists, therefore, were gathering their forces for all-out battle if agreements were reached that could lower tariffs substantially.

As the Kennedy Round negotiations came to a close in May 1967, industries throughout the country were clammering for protection before the tariff reductions could be made final. Congress was inundated with proposals for quotas and other restrictions. The many bills were accompanied by an intensive lobbying campaign. Most of those specific bills never got out of committee. One bill, however, the Low-Wage Import Act, which would have required investigation into charges that low-wage imports were detrimental to domestic industries, passed the House. The Administration strongly opposed the plan, and it never passed the Senate. Another was that which would have reduced quotas on certain cotton products from countries which had severed diplomatic relations with the U.S. The reduction was to be permanent and ostensibly was to "punish" countries with differing foreign

policies. In reality, however, it would have permitted domestic producers a much greater market. It passed Congress and the President vetoed it in 1968.[38]

With the conclusion of the negotiations, but before the agreed upon tariff cuts were actually put into effect, the Administration recognized the need for further foreign trade legislation. Two major parts of the U.S. agreements required Congressional action--the new International Grains Agreement, and the repeal of the American Selling Price method of tariff determination on benzoid chemicals. The President hoped, too, to have the 1962 administrative assistance provision liberalized because it had proved so difficult for U.S. firms to "prove injury" from imports that had increased as a result of reduced tariffs. Also, he wanted a bill that would provide him with expanded bargaining authority for trade negotiations and the power to explore liberalization of non-tariff barriers when the present authority contained in the 1962 Act expired in mid-1967. But protectionist sentiment was rampant, and Lyndon Johnson was enough of a politician to know that the political exigencies of the situation were such as to block passage of any further free trade bill. He did not introduce the bill until May 1968, well after the trade negotiation agreements had been put into effect.[39]

The Trade Expansion Act of 1968, as proposed, was as liberal and far-ranging as the 1962 Act. Unfortunately, times were such that it was doomed

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[38]<u>Ibid.</u>, pp. 95-98.

[39]<u>Ibid.</u>, p. 112.

from the start. The protectionists continued to introduce many quota bills, so the Congress had its hands full with trade legislation. Primary among the protectionist lobbies were the old dependables of textiles, oils, steel, and chemicals. The Administration managed, through lobbying efforts of its own, to fend off the industry efforts, but at the same time the Expansion Act was never reported our of committee.

This was a considerable disappointment to President Johnson, as it meant that he would pass out of office without having succeeded in extending the President's tariff reducing powers beyond those which he had inherited. Negotiating authority under the 1962 Act had expired June 30, 1967. He did, however, in his last year in office, appoint a study commission, composed primarily of prominant businessmen, to look into all aspects of the United State's foreign trade policy, with the view toward strengthening exports and expanding world trade in the 1970s. The group was headed by William M. Roth, chief negotiator during the Kennedy Round, and the President's Special Representative for Trade Negotiations. The "Roth Commission" reported its findings to the President too late in his administration to see any of its recommendations acted upon. Basically, they called for expanded tariff reduction powers, but not surprisingly, when considering the make-up of the group, also recommended greatly enhanced protective measures for domestic industry.[40]

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[40]William M. Roth, "Future United States Foreign Trade Policy," A Report to the President, submitted by the Special Representative for Trade Negotiations (Washington, D.C.: Government Printing Office, 1969).

President Johnson left office at a time of increasing protectionist sentiment with no pending trade expansion powers. His Administration had very definitely been one of free trade advocacy, but powerful forces worked against him. During his term, 1964-1968, imports increased at a much faster rate, \$18.613 billion to \$32.991 billion, than did exports, \$26.297 billion to \$34.199 billion. Also, the ratio of imports for consumption to output continued to rise, 5.85 per cent to 7.66 per cent, at an accelerated rate. The nation's economy was inflated by the Vietnam War and the unrest at home served to diminish the importance of foreign trade. His trade policy was of free trade, and it is probably to his credit that he was able to hold the line as well as he did.

Nixon--Trimming the Sails

When Richard Nixon became President, circumstances were more favorable for a swing toward protectionism than at any time since World War II. The 91st Congress was Democratic, but protectionist; tariff reductions resulting from the recent negotiations had stirred up a nest of protectionist sentiment and actions; inflation was rampant, calling for decreased imports and increased exports; and there were no major free-trade bills or negotiations pending. In addition, it was rumored, the southern textile industry had put up large sums of money to back Nixon's campaign and was seeking relief from Japanese imports in return.

President Nixon early called for a continued advocacy of the previous free trade policies, but in contrast to his predecessors' positions, each pronouncement he made contained a strong emphasis on the necessity to strengthen domestic industry safeguards. At a press conference in March 1969, he said:

> . . . I . . . indicated that I favored freer trade rather than restrictions on trade, but that it would be very difficult to resist that kind of (protectionist) pressure . . .
>
> A final note in this respect: as we look at the whole trade pattern, I think we have to realize that we cannot anticipate in the near future another big round of reductions of tariff barriers. We are going to do well if we can digest what we have on the plate. . . .[41]

It was necessary, however, that a new Trade Bill, of some kind, be submitted. So in November 1969, President Nixon asked Congress to pass his proposed legislation. It was a lengthy bill, and had four main features:

> The trade bill which I am submitting today addresses these new problems of the 1970s. It is modest in scope, but significant in its impact. It continues the general drive toward freer world trade. It also explicitly recognizes that, while seeking to advance world interest, U.S. trade policies must also respect legitimate U.S. interests, and that to be fair to our trading partners does not require us to be unfair to our own people. Specifically:
>
> -It restores the authority needed by the President to make limited tariff reductions.
>
> -It takes concrete steps toward the increasingly urgent goal of lowering non-tariff barriers to trade. (It would have eliminated the ASP tariff pricing system.)
>
> -It recognizes the very real plight of particular industries, companies, and workers faced with import competition, and provides for readier relief in these special cases. (It proposed liberalization of the administrative assistance and escape clause provisions.)

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[41] Richard M. Nixon, Public Papers of the President of the United States: Containing the Public Messages, Speeches, and Statements of the President 1969, (Washington, D.C.: Government Printing Office), pp. 97-98.

-It strengthens GATT. (By providing permanent funding for U.S. GATT participation.)[42]

The "Nixon Trade Act of 1969" was, when compared to other recent trade bills, a protectionist measure. And perhaps that was its own down-fall. With the specific relief included for the textile industry, the door was open for all the other protectionist industries to seek a seat on the trolley. Chairman Mills fought the bill through months of hearings and volumes of testimony, and when it was over, it was presented to Congress as the most protectionist measure considered since 1930.

Fortunately, however, debate was so vitriolic and prolonged that the bill ran into the stops. It was shelved, after more furious scurrying to get it through on the tails of a Social Security Bill, in order to allow the Senate to clean up last minute business at the end of the 91st Congress. It's back in the 92nd, however, as protectionist as ever. Whether or not it will be passed as is, is only conjecture.

In the meantime, President Nixon's record as a free trade advocate is still a matter that time will tell. He continues to preach free trade--but he also continues to listen to the textile merchants, and all of their protectionist compatriots.

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[42]Ibid., pp. 940-945.

Summary

It is easy to show that the five President's in office since 1945 have professed the tenants of free trade. The facts of their pursuit of such a policy provide somewhat varied results. Truman and Kennedy took major steps toward trade liberalization with vigor and perserverance. Eisenhower and Johnson may be judged by posterity to have been victims of their times. While they sought trade liberalization legislation, the Congress and the nation prevented substantial moves in that direction. The book is still out on Nixon, but his major policy speeches and his first significant proposal in the area of foreign trade seem to indicate at least a partial return to the old-time Republican protectionism.

Since the average ad valorem equivalent tariff rate on dutiable imports for consumption has decreased steadily since 1945, perhaps it is a fair measurement of the degree of liberalization effected by each administration. Table 1 provides a comparison of the decrease in this rate for each Presidential term, in gross decrease, percentage of decrease, and decrease per year. The results are startling. Only the Truman administration accomplished significant average yearly reductions in the average ad valorem equivalent tariff rates on dutiable imports. Of course, the figures must be used with a good deal of caution and restriction. How much effect previous President's policies, inflation, wars, and the general economic situation had

TABLE 1

AVERAGE TARIFF RATES IN EFFECT DURING PRESIDENTIAL TERMS

President	Year Entered	Rate	Year After Departed	Rate	Rate Decline	%	%/Yr
Truman	1945	29.0%	1952	12.8%	16.2%	56.0%	8.0%
Eisenhower	1952	12.8	1960	12.2	0.6	4.7	0.6
Kennedy	1960	12.2	1964	11.9	0.3	2.4	0.6
Johnson	1964	11.9	1969	11.2	0.7	5.9	1.2
Nixon	1969	11.2	--	--	--	--	--

on the results of the administration in power can only be surmised. The statistics do seem to say, however, that since Truman, little real progress has been made in the reduction of tariff rates.

The foregoing examined the professed policies of the administrations that have been in office since 1945. It also reviewed, generally, the most important federal legislation of the same twenty-five years in the field of foreign trade. We should know what our leaders sought to do. What they actually accomplished will be examined in the next two chapters. A great deal of those accomplishments are the result of the Trade Agreements Program. Chapter IV will examine that program in detail.

CHAPTER IV

THE TRADE AGREEMENTS PROGRAM

Background

The backbone of United States trade policy since 1934 has been the Reciprocal Trade Agreements Program. Until 1947 agreements were reached by means of bilateral negotiations. Concessions extended to some were not necessarily extended to many. This was recognized as an adequate system for many years, but the conclusion of the war and with it the severe weakening of many countries' bargaining position, plus the emergence of a "third world" of newly independent, but weak, states, brought with it the widely acknowledged need for a more equitable and a more efficient means of lowering trade barriers for all nations. This means was achieved by the signing of the General Agreement on Tariffs and Trade (GATT).

At this writing the United States has eighty trade agreement obligations in force, seventy-six through GATT, and four through bilateral agreements with non-GATT nations. Although the GATT does not constitute 100 per cent of our Trade Agreements Program, it is such an overwhelming part of it, and has occupied so much of its history, the bulk of this chapter discussing

the Program will concern United States participation in the GATT. Its purpose is to examine the results of trade agreements arrived at under the direction of, and within the authority granted by, Executive Programs and Legislative Acts.

Trade Agreements Prior to Geneva

Since the Trade Agreements Act was signed in 1934, several bilateral agreements were reached with various countries prior to the Geneva negotiations of 1947. They had been made with twenty-seven separate countries (actually twenty-nine, but the Czechoslovakian and Nicaraguan agreements were later suspended) whose trade constituted 69 per cent of the total U.S. imports for consumption, free and dutiable, in 1939.

In 1939 (All pre-GATT trade values are based on the 1939 trade year. This is done primarily because the post-war inflation tended to distort prices and, therefore, the ad valorem equivalent of specific and compound duties. Also, the composition and sources of the United States trade commodities were more nearly "normal" in 1939 than in the war years, or in 1946 and 1947.) total U.S. imports for consumption amounted to $2.276 billion. Of that total, $879 million was dutiable, and $1.397 billion was duty-free. Tariff reduction concessions had been made on dutiable imports amounting to $562 million, or 63.9 per cent of the total dutiable imports.

In addition, the tariff rates on $41 million worth of imports were bound at pre-arrangement levels. Of the $1.397 billion worth of duty-free goods imported, $1.180 billion, or 91 per cent, were duty-free bound as a result of pre-GATT agreements. Thus, 78 per cent of all U.S. imports for consumption were subject to one kind or another concession arrangement granted in accordance with the 1934 Act, but prior to GATT.

Exports from the United States in 1939 amounted to $3.2 billion. Exports to the twenty-seven countries with which trade agreements had been reached amounted to $2.247 billion. Of that total, pre-Geneva concessions had been granted on $1.278 billion, broken down as follows:

Binding of duty-free status:	$ 293 million
Binding of tariff rate:	366 million
Reductions in tariff rate:	506 million
Other commitments:	113 million[1]

These data are considerably more general than the import data because of the wide variation in treatment of imports among the various nations. They do serve to illustrate, however, aggregate levels and trends.

Origins of The General Agreement on Tariffs and Trade

GATT came into being more as a compromise solution, an expedient, than as a planned and engineered entity. The U.S. Department of State

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[1] U.S., U.S. Tariff Commission, Operation of the Trade Agreements Program June 1934 to April 1948, Part I, Summary (Washington, D.C.: Government Printing Office, 1948), pp. 1-39.

published the "Proposals for Expansion of World Trade and Employment" in November 1945 for the purposes of delineating a multinational trading code and the concepts of an international organization for the fostering and regulating of world trade. Invitations to a conference to consider these proposals were extended to nineteen other countries, but in March 1946 the United Nations Economic and Social Council took over its planning from the United States. The Council set up the Preparatory Committee of the United Nations Conference on Trade and Employment to draft the International Trade Organization (ITO) Charter.

While the Preparatory Committee was meeting in Geneva from April through October 1947, the nations forming the committee, by then twenty-three in number, agreed to sponsor simultaneous negotiations for the reduction of common tariffs and other trade restrictions. These negotiations were to be conducted bilaterally, but through the General Provisions of the Agreement, the agreements reached would be effected by all of the Contracting Parties. The Tariff concessions resulting from these negotiations were then embodied in a multilateral contract called the General Agreement on Tariffs and Trade.

The very concept of multilateral trade agreements was unprecedented in international commercial relations. Attempts had been made to reach agreement upon maximum tariff rates and upon percentage reductions of tariffs, but this was the first attempt to bring about lower duties by multilateral, instead of bilateral, negotiations. The GATT was signed on October 30, 1947, to go into effect in twenty-three nations on January 1, 1948.

Objectives of GATT

GATT was conceived of, and accepted to be, an impermanent arrangement which would be incorporated fully into, and superceded by, the forthcoming ITO Charter when that document was finally adopted and ratified. It was intended only to provide a set of rules governing those tariff reductions negotiated before the ITO could begin to permanently function.

Its objectives, as stated in its preamble, were to foster the improvement in the standards of living, full employment, a large and steadily growing volume of real income and effective demand, the full use of the world's resources, and the expansion of production and international trade. More specifically, it was stated that agreements reached substantially reducing tariffs and other trade barriers, and eliminating international commercial discrimination, would contribute to the attainment of the objectives.[2]

The core of the agreement is the most-favored-nation principle. It provides that "any favor, privilege, or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."[3] As a

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[2]U.S., Department of State, General Agreement on Tariffs and Trade, Preamble and Article I, 1948. (The present agreement is embodied in Basic Instruments and Selected Documents, Volume IV, Text of the General Agreement, 1969, published by the Contracting Parties to the General Agreement on Tariffs and Trade, Geneva, 1969.).

[3]Basic Instruments and Selected Documents, Volume IV, Part I, Article II.1.

result of this provision, nations which are neither particularly strong importers, nor particularly strong exporters, benefit from the agreements reached bilaterally between a strong importing nation and a strong exporting nation. In this way, the objectives will be brought that much closer for all the parties to the GATT.

Structure

The GATT is a complicated document. It has been revised significantly on two separate occasions, once in 1954-1955, and again in 1965. It contains, essentially, four fundamental principles, around which its detailed rules and operating procedures have been built. First, trade should be conducted on the basis of non-discrimination. Second, domestic industries should only be protected by means of customs tariffs and not through other commerical measures. Third, consultation aimed at avoiding damage to members' trading interests is the means to achieving the objectives. And, fourth, GATT provides the framework within which negotiations can be held for the reduction of tariffs and other barriers.[4]

The primary means used in the efforts toward elimination of discrimination in trade is the most-favored-nation principle. As stated above, it is the core of the agreement, and is the best possible method of eliminating

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[4]Ernest H. Preeg, Traders and Diplomats (Washington, D.C.: The Brookings Institution, 1970), pp. 22-25; and van Meerhaeghe, International Economic Institutions, pp. 162-172.

bilateral agreements which would have the effect of each country granting greater advantage to its primary trading partners. There are three exceptions to the most-favored-nation clause. They are the provisions which allow adjacent countries to reciprocate special privileges in order to facilitate border traffic; form a customs union; or, create a free trade area. These privileges are limited, however, in that they may not adversly affect trade with other Contracting Parties more than it was affected prior to the forming of the union.

The provisions which limit trade barriers to customs duties and eliminate quotas and other non-tariff barriers are the stabilizing factors in the GATT arrangement. They are mandatory, but there are, again, exceptions. These are granted primarily for temporary balance-of-payments relief, agricultural support programs, and the prevention of market disruptions. The tariff provisions also recognize the differences present between high and low tariff countries and permit the low tariff ones to provide low tariff consolidation or duty elimination in return for high tariff reductions. There are safeguards, of course, to individual nations' domestic industries in the form of the escape clause provision. This can be applied in several instances, such as for less-developed nations, and for the protection of national security, health, or morals.

The consultation principle is inherent throughout the GATT. The means of consultation are embodied in the text, and GATT itself provides the

mechanism. Potential trade problems and trade disputes are to be settled in a mutually satisfactory agreement after consultation.

Negotiations on a periodic basis are provided for in the interest of reducing trade barriers on a reciprocal and multilateral basis. As will be seen, six such negotiating conferences have been held thus far.

The GATT document is divided into four parts, with thirty-eight articles. The first part, containing articles I and II, spells out the objectives of the agreement and the minimum obligations of the Contracting Parties, i.e., the most-favored-nation clause. These articles may be amended only by unanimous agreement of the Contracting Parties. Part II, articles III through XXIII, forms the code of fair trade. Its provisions are the primary instruments regulating trade practices, but are only binding insofar as they do not conflict with individual national legislation. Hence, a country may accede to the GATT without complete acceptance of it, but the exceptions must be spelled out in the individual Protocol of Accession. Part III, articles XXIV through XXXV, deals with the conditions of accession, membership, withdrawal, amendments to the agreement, etc. Part III, as well as Part I, requires mandatory acceptance. Part IV, articles XXXVI through XXXVIII, was added in 1965. It deals with the trade and development of the less developed nations. Its adoption was a tacit recognition of GATT's increasing role in the development of these emerging states.

Membership

Accession to the Agreement is open to any country in the world, but since every newcomer automatically benefits from previously negotiated tariff rates, newcomers are expected to enter into tariff negotiations with existing Contracting Parties. When a government wishes to join the GATT arrangements are made for the conduct of negotiations, and upon their successful conclusion a "protocol of accession" is drawn up. This specifies that the acceding country accepts the same rights and privileges, as well as obligations, as the other members. Existing members do not generally drive particularly hard bargains when negotiating with applying nations, therefore accession to the agreement is generally favorable to the new member.

Accession of a new member country requires a two-thirds majority vote by the Contracting Parties. In a sense this is contrary to the thrust of the agreement since trade benefits are to be granted to all members. Therefore, all members should have the right to vote on membership applications. It was adopted, however, in the interests of preventing an important trading country from blocking membership of a competing nation. If a member does not agree to accession of a particular country, however, it is not obliged to apply the provisions of Part II to that new member country. In other words, membership does not necessarily involve a uniform tariff system with respect to all participating countries. Japan's accession met

with a great deal of opposition as she was regarded as a most dangerous trade competitor owing to her low wage scales. A two-thirds majority was achieved in 1955, and then several countries did not apply the provisions of Part II.[5]

There were twenty-three original Contracting Parties to the GATT in 1947, but by June 1970, seventy-seven full Contracting Parties had acceded to the agreement, plus there is one provisional member. In thirteen additional countries GATT rules are applied de facto even through those countries are not official members. It is assumed that they will eventually become full Contracting Parties.

Administration

The Contracting Parties agreed to meet from time to time for the purpose of completing the details of those provisions which require joint action. These meetings were to be called "sessions," and in general would be held once every calendar year. The first and third sessions were held simultaneously with the first and second rounds of tariff negotiations. In February 1970, the Contracting Parties held their twenty-sixth session.

During the third session, in 1949, it was decided that the Secretariat of the Interim Commission of the International Trade Organization would take over secretarial, administrative, and between session duties for the GATT. In 1952, this body became the permanent Secretariat of The Contracting Parties, General Agreement on Tariffs and Trade. The

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[5]van Meerhaege, International Economic Institutions, pp. 160-161.

Secretariat is headed by a Director General, until 1965 the Executive Secretary, whose role is at once administrative, yet powerful. The Secretariat is divided into two main departments, those of Trade Policy and Intelligence, and Conference Services, Liaison and Administration. There are also the Information and Library Service and the Trade Information Center, and seven specialized divisions under the two departments.[6]

In 1955, at the ninth session, an attempt was made to create a permanent administrative organization for GATT, the Organization for Trade Cooperation (OTC). As discussed in Chapter III, this organization was never ratified by the Congress and, therefore, was as good as dead. Its demise, however, did not eliminate the need for a more permanent, professional GATT nucleus.

As the GATT gained prominence and general acceptance, and as more and more nations acceded to its provisions, the GATT organization, as differentiated from the basic agreement itself, grew and became formalized. At the sixteenth session, in 1960, the Contracting Parties decided to establish a Council of Representatives, whose functions it would be to consider urgent matters between sessions, to supervise the working of committees, and to prepare for the sessions. The council is composed of representatives from each of the Contracting Parties that wishes to be represented. The Council

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[6]Gerard Curzon, Multilateral Commercial Diplomacy (London: Michael Joseph, 1965), pp. 47-53.

meets between sessions for periods of a few days.

In addition to the Secretariat and the Council, GATT business is conducted by committees, working groups, and panels of experts, as needed. Purpose, duration, and composition of these groups varies with the time and circumstance.[7]

The physical location of GATT permanent bodies, of all recent tariff negotiations, and probably of all future negotiations, is the GATT International Trade Center in Geneva. This center was instituted in 1964, and like all GATT administrative expenses, its cost is born equitably among the Contracting Parties, computed on the basis of each country's share of foreign trade.[8]

Uniqueness

GATT is the only organization of its type in the world today. It is so, in fact, because it is not really an organization per se, but rather it is the basis for contractual arrangements among sovereign nations. The participating nations are even called "Contracting Parties."

Another startling feature of GATT that has been preserved since its inception is that not one member country has ever ratified the agreement. It exists by force of the "Protocol of Provisional Application." The United

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[7] Ibid., pp. 41-42, & 52.

[8] Ibid., p. 38; and Harvard Law Review, "Free Trade and Preferential Tariffs: The Evolution in International Trade Regulation in GATT and UNCTAD," Volume 81, 1968, p. 1810.

States participates in the negotiations and agrees to the subsequent trade concessions under the authority vested in the President by the Trade Agreements Act of 1934.[9]

Finally, the fact that GATT came into existence at all is rather unique. It was not planned; it was not sought; and it was not widely acclaimed at the time of its inception.

> The original idea was that GATT was to protect the 1947 tariff concessions from nullification or impairment until such time as the International Trade Organization could take over. In fact had the ITO come into existence contracting parties to GATT would have confined their activities strictly to tariff matters. The six tariff negotiation rounds and their administration would probably have constituted the only activity of GATT. But the I. T. O. was not brought into existence and hence contracting parties to GATT assumed many of the functions and responsibilities which it would have undertaken. GATT thus became de facto if not de jure an international trade organization.[10]

GATT Tariff Negotiations

The statutes described in Chapter III provided the Presidents with tariff reducing powers. The vehicle by which these reductions were to be brought about is the tariff negotiating conferences between the Contracting Parties to the GATT. Just how well the United States responded to the opportunities to reduce tariffs and other barriers will now be examined round by round.

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[9] Harvard Law Review, Volume 81, 1968, p. 1806.

[10] Curzon, Multilateral Commercial Diplomacy, p. 34.

It should be borne in mind, when considering concessions received and granted, that the hallmark of GATT negotiations is reciprocity: what can my country receive from yours in turn for certain concessions? The whole basis of the GATT structure is to apply concessions granted to one nation, to all nations. If one gives up something, it should receive something in return from all of its partners. But it is obvious that such a principle is difficult to practice under all circumstances. The volume of a country's trade, the average levels of its tariffs, its non-tariff barriers, and a host of other factors enter into the reciprocity calculations, not the least of which is the different treatment accorded different classes of goods, e.g., industrial vs. agricultural. But in order to make any kind of comparison of the success of the negotiations at all, it is necessary to review the various concessions granted and received. The important ingredient must be the knowledge that true reciprocity does not always mean equal concessions.

Table 2

Table 2 is a summation of the major indices of tariff concessions agreed to at each of the GATT rounds. It is provided at this point to afford an overall view of the aggregate amounts of trade involved. Where these data are used in the subsequent text separate notation as to source will not be made.

Figures may not agree precisely with those of Appendix A. No attempt has been made to reconcile the differences since, for the most part, they are small and inconsequential.

TABLE 2

RESULTS OF GATT TARIFF NEGOTIATIONS BY ROUND
(Millions $)

Round				U.S. Imports					U.S. Exports	Concessions[b]		
				%		Value						
Number	Place	Year	Trade Year[a]	Free	Dutiable	Free	Dutiable	Total		Granted On Imports From All Sources	% Of Imports	Received On Exports To Negotiating Countries
First	Geneva	1947	1939	61.4%	38.6%	$ 1,397	$ 878	$ 2,276	$ 3,177	$1,766	77.5%	$1,192
Second	Annecy	1949	1948	58.9	41.1	4,174	2,917	7,092	12,653	250	.3	489
Third	Torquay	1951	1949	58.9	41.1	3,883	2,708	6,591	12,051	477	.7	1,160
Fourth	Geneva	1956	1954	55.4	44.6	5,667	4,571	10,239	15,110	753	.7	395
Fifth	Geneva	60/62	1960	40.9	59.1	6,142	8,871	15,013	20,578	1,755	11.6	1,564
Sixth	Geneva	64/67	1964	37.8	62.2	7,045	11,568	18,613	26,090	8,500	45.6	8,100

[a] Represents the year of the following trade statistics used for reciprocity calculus.

[b] There is a lack of parallelness in the presentation of concessions granted and received. The former are cited in terms of the value of trade in the product from all sources; the latter in trade with negotiating countries only.

SOURCE: U.S. Tariff Commission, Operation of the Trade Agreements Program, 19th Report, 1967, p. 238.

Geneva, 1947

The first round of tariff negotiations under the aegis of what was soon to become the GATT was conducted simultaneously with the discussions concerning the Charter for an International Trade Organization, from April through October 1947. The agreements were negotiated on a bilateral, selective, product-by-product basis, but were then placed in force multilaterally. Covering approximately 45,000 separate items, $10 billion worth of goods, and 70 per cent of the total world trade, 123 such reciprocal trade agreements were reached. The GATT was signed by twenty-three nations on October 30, 1947 to go into effect provisionally January 1, 1948.

The United States negotiated with all twenty-two other participating countries. Agreements reached prior to 1947 were replaced by those negotiated in the GATT. Concessions were granted by the United States on articles constituting 70.4 per cent of the total dutiable imports for consumption in 1939. The average rate of duty on all dutiable imports in effect in 1947 before Geneva was 32.2 per cent (1939 levels). After the GATT round the average was 25.4 per cent, a 21 per cent reduction.[11] The President's authority was, as we have seen, a reduction of up to 50 per cent of the 1934 rates on any specific commodity.

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[11]The disparity between these figures and those of Appendix A is due to the use of 1939 as a base year in the calculations here. Appendix A figures are all "current year" based.

Of the $2.276 billion in imports, $879 was dutiable and $1.397 billion was duty-free. The Geneva negotiations resulted in tariff reductions on imports amounting to $471 million; tariff bindings on imports amounting to $148 million; and duty-free bindings on a very few new commodities, but resubstantiation of the duty-free status of $1.180 billion worth of trade previously agreed upon. Of the $619 million in commodities upon which the United States granted duty reductions or bindings, $124 million worth of goods were granted reductions or bindings in rate of 10 per cent or less; $2 million worth were granted reductions or bindings between 10 and 25 per cent; $167 million between 25 and 35 per cent, and $266 million worth of imports were granted concessions in rate between 35 and 50 per cent.

In return for these concessions, the United States received concessions on goods totalling $1.302 billion in export trade in 1939 (to all countries, not just those with which the agreements were negotiated). These were made up as follows:

Binding of duty-free status:	$305 million
Binding of tariff against increase:	359 million
Reduction in tariff rates:	500 million
Other commitments:	138 million[12]

The "other" commitments consisted of obligations to remove numerous other

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[12] All statistical data in the above section were taken from: U.S. Tariff Commission, Operation of the Trade Agreements Program June 1934 to April 1948, Part I, Summary, pp. 15-39; and U.S., Department of State, Analysis of General Agreements on Tariffs and Trade, 1947.

trade barriers, e.g., empire preferences and various complicated customs machineries.[13]

The first round of negotiations within the GATT was to be the most fruitful conducted until the Kennedy Round in 1964. In large measure this was due to the novelty of multilateral negotiations and to the United States' broad tariff reducing powers. Also, the mutual feelings of cooperation and affiliation flowing from the recent successful conclusion of the war carried with them a mood of optimism concerning the future of world trade potential. It was a good beginning to reciprocal trade agreements. It pointed out, however, how much slack there was in the world's trade posture, and how much progress could be made if the effort was expended.

Annecy, 1949

The second round of GATT tariff negotiations was for the most part simply an extension of the first round. Ten additional countries sought to accede to the Agreement, requiring extensive negotiations. Also, the authority granted the President to reduce tariffs had been extended by the Trade Agreements Extension Act of 1949, for another three years. Since much of the original 50 per cent tariff reduction power was not yet expended, United States' negotiators still had considerable latitude in bargaining.

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[13]J. M. Letiche, Reciprocal Trade Agreements in the World Economy (Morningside Heights, New York: Kings Crown Press, 1948), p. 46.

Negotiations were not conducted between any of the twenty-three original Contracting Parties, which were all present again, but rather were held only with and among the ten acceding parties. One hundred forty-seven bilateral negotiations were concluded. The meeting was held in Annecy, France, just south of Geneva, from April through August 1949.

Because of the nature of the Annecy meeting, the United States concluded trade agreements with countries constituting only about 5 per cent of the total imports for consumption in 1947 and 1948. Concessions were granted through bilateral agreements on imports valued at $143 million; however, because of the multilateral nature of such agreements, the total import value covered by the concessions amounted to $250 million. Dutiable products accounted for $65 million, and duty-free products $78 million, of the imports that concessions were concluded on. Of the $65 million of dutiable items, $61 million were involved in tariff reduction concessions, the other $4 million worth of goods were duty-bound. Tariff reductions of between 36 and 50 per cent were conceded on $39 million of the $61 million.

Prior to the Geneva and Annecy conferences the average ad valorem equivalent of the tariffs on total U.S. imports was 28.4 per cent (weighted by the value of imports in 1947). On the same basis the average rates in effect after Geneva was 15 per cent, and after Annecy 14.5 per cent, an aggregate reduction of 49 per cent from the pre-agreement rates. Before the conclusion of any trade agreements, the duties on dutiable articles (again weighted by

1947 values (the slight disparity between these figures and those of Appendix A is due to this difference in the year of valuation of imports) were equal to 11.1 per cent of the total value of United States imports, free and dutiable. After the Geneva negotiations the average decreased to 5.9 per cent, and after Annecy to 5.7 per cent.

There was a very wide range in the average rates of tariffs in the various schedules before any trade agreements were concluded; from 12 to 92 per cent ad valorem (1949 import values). After the Annecy negotiations, the average rate of duty varied less from schedule to schedule, and the range was reduced to from 5 to 44 per cent ad valorem. Before any trade agreements were concluded 20.4 per cent of total United States imports were subject to tariff rates higher than 40 per cent ad valorem, whereas after the Annecy negotiations the proportion in that bracket was less than 4 per cent.

Concessions received by the United States at Annecy were on commodities totalling $489 million in trade in 1948, or approximately 36 per cent of the total export trade to the ten countries involved. Concessions reducing duties were applied to exports valued at $277 million; to bindings of existing duties at $151 million; and to bindings of duty-free status to $52 million. On trade valued at just less than $9 million the commitments made could not be classified, but covered such things as changes in tariff types and schedules, and also increases in duties.[14]

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[14]Statistical data in Annecy section from: U.S. Tariff Commission, Operation of the Trade Agreements Program, Third Report April 1949-June 1950, pp. 4-11; and U.S., Department of State, Analysis of Protocol of Accession and Schedules to the General Agreement on Tariffs and Trade Negotiated at Annecy, France, April-August 1949.

Torquay, 1950-1951

Torquay, in the south of England, was the scene of the third round of GATT tariff negotiations from September 1950 through April 1951. Torquay marked the beginning of GATT as an organization involved in more than just tariff negotiations, but also in the many real problems of world trade and commerce. Part of the impetus for this expansion in scope was undoubtedly the failure of the United States Congress to ratify the ITO Charter in 1950, signalling the death of that organization.

The genesis for the expanded character of the meeting was a suggestion by The Netherlands that the conference contribute in considerable degree to the equilization of tariff levels within Europe. With the relaxation of quantitative trade restrictions, in large part brought about by the signing of the Agreement, low tariff countries, of which The Netherlands was one, were being exploited to a large extent by the high tariff countries. The reduction of tariff rates was not enough. A greater equilibrium between all tariff levels, particularly on the Continent, was needed.

The discussions which followed were long, complicated, and at times bitter. A plan was submitted by France for an across-the-board lowering of customs duties by 30 per cent. There was also much discussion concerning just what part the Organization for European Economic Cooperation (OEEC) would play in European tariff standardization. No satisfactory or lasting solution to the problem was reached during the Torquay round, but one more

step had been taken toward the eventual European Common Market (EEC). The French plan eventually became known as "The GATT Plan," and after some hope for its adoption was achieved by the Benelux countries favorably endorsing it, it met the fate of so many other far-sighted proposals, that of death in the United States Congress.[15]

In the meantime, tariff negotiations at Torquay resulted in a modest amount of rate reductions, embodied in 147 bilateral agreements between thirty-four countries, twenty-eight of which were Contracting Parties, and six countries desiring to accede to the Agreement. An innovation incorporated at Torquay was the use of tariff information and lists of the products on which they intended to request concessions exchanged between the participating countries the previous year. This had been brought about in the interest of shortening the length of the tariff negotiation rounds.

The United States completed negotiations with seventeen countries at Torquay, five of them newly acceding nations. Concessions were granted on products which in 1949 accounted for $477 million worth of imports for consumption from all countries. Of this total, $419 million worth of goods were granted tariff reductions; $24 million tariff-bindings; and duty-free bindings on $34 million worth of imports. The items upon which concessions were granted accounted for only 7.2 per cent of total imports for consumption. Also, only 1325 of the approximately 2800 statistical classifications covered

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[15] Curzon, Multilateral Commercial Diplomacy, pp. 87-92.

by the lists of commodities were negotiated. The limited scope of the Torquay round was due to the limited tariff bargaining power still remaining from the Trade Extension Act of 1945. There were, however, several concessions granted on goods that had not been previously included in any agreements. The combined beneficial effect on the lowering of tariffs at the two previous rounds can be seen in the analysis of percentage reductions of tariffs conceded at Torquay. Of the $419 million of import goods upon which tariff reductions were effected, $156 million worth were for reductions less than 25 per cent; $104 million for reductions between 25 and 35 per cent; and $160 million worth for reductions between 36 and 50 per cent.

Concessions which the United States obtained at Torquay consisted of reductions of duties, bindings of existing duties, and duty-free bindings on a wide range of products. They covered $1.060 billion worth of export goods to the countries with which the United States completed the agreements, and another $100 million worth of exports to countries which concluded other agreements at Torquay. The third round of negotiations was the last at which the United States received concessions on trade valued at more than that on which it granted concessions.[16]

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[16]Statistical data in Torquay section from: U.S. Tariff Commission, Operation of the Trade Agreements Program, Fourth Report July 1950-June 1951, pp. 66-74; and U.S., Department of State, Analysis of Torquay Protocol of Accession, Schedules and Related Documents, General Agreements on Tariffs and Trade Negotiated at Torquay, England, September 1950-April 1951.

Geneva, 1956

Attempts at tariff negotiating procedure reform continued through 1956, largely within GATT, which was becoming a strong and independent organization as well as a concept, and within the OEEC. Little progress was made, however, and a universal pessimism was building toward just how successful any further GATT negotiations could be. When the President's tariff reducing power was increased by only 15 per cent in 1955, this pessimism was at its highest. Nevertheless, the five year search for a better formula for lowering tariffs was not completely wasted. The many meetings and proposals within the GATT framework contributed significantly toward the evolution of the complete elimination of tariffs within the EEC.[17]

Despite the pessimism, however, the fourth round of tariff negotiations sponsored by the Contracting Parties, was held from January through May 1956. Unlike at the previous rounds, no additional countries were negotiating to accede during 1956. (It should be mentioned, however, that in 1955 a conference with the Contracting Parties was held in Geneva, devoted almost entirely to the accession of Japan. Japan was present at Geneva in 1956.) Twenty-two countries participated in the conference, plus, for the first time, the High Authority of the European Coal and Steel Community was present,

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[17]Curzon, Multilateral Commercial Diplomacy, p. 94.

acting as agent for its six member nations. Sixty trade agreements were reached.

Under existing United States legislation, as enacted in the Trade Extension Act of 1955, the maximum reduction that could be made in the import duty on any commdity was 15 per cent, and the reduction was to be spread out evenly over three years. The concessions that the United States granted at Geneva consisted almost entirely of reductions of approximately 15 per cent in the existing rates of duty. Tariffs on 36 commodities for which the existing ad valorem rates (or equivalent) were more than 50 per cent were reduced to that figure, and one free-list item was bound at that status. The United States granted tariff concessions to the countries of initial negotiation on products that accounted for imports valued at $519 million (1954 value). Imports of these products from other countries that participated at Geneva were valued at $134 million. Total imports from all countries of products on which concessions were granted were valued at $753 million. These figures do not include copper. A concession--the reduction by approximately 15 per cent of the import-excise taxes on unmanufactured copper and copper products--was granted on copper subject to various technical qualifications which were inapplicable at the time of the agreement. Therefore, copper is not included in the above concession product totals. If it were, total imports of concession products would be $911 million. The United States obtained

concessions on $395 million worth of export items from the twenty-one countries with which it concluded agreements.[18]

At its conclusion, the 1956 tariff round was considered by many insiders to be a failure. The results were modest, to be sure. However, the negotiations did accomplish much when it is considered how little bargaining power and new areas for tariff reductions the participants had to work with. The major achievement, therefore, was the realization that a new method of negotiation for tariff reductions was sorely needed. The bilateral, specific, product-by-product bargaining sessions were not responsive enough to the overall needs of the Contracting Parties.[19]

The Dillon Round, 1960-1962

By the time the fifth tariff negotiation conference sponsored by the GATT rolled around in 1960, many new situations had developed, and the negotiations were, indeed, entering a new era. The fifth round had been suggested in 1958 by Mr. C. Douglas Dillon, then Under Secretary of State for Economic Affairs, and later Secretary of the Treasury. By 1960, the EEC had become a

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[18]Statistical data in Geneva section from: U.S. Tariff Commission, Operation of the Trade Agreements Program, Ninth Report July 1955-June 1956, pp. 54-64; and U.S., Department of State, General Agreement on Tariff and Trade Analysis of United States Negotiations Sixth Protocol (Including Schedules) of Supplementary Concession Negotiated at Geneva, Switzerland January-May 1956.

[19]Curzon, Multilateral Commercial Diplomacy, p. 97.

functioning and powerful entity. Its high common tariff had created many tariff problems that would require negotiations to solve, plus outside countries, not the least of which was the United States, saw a very real threat to their markets posed by the EEC.

The Trade Agreements Extension Act of 1958 had granted the President additional tariff reducing powers of up to 20 per cent. Mr. Dillon was determined to use this authority, plus the influence of the non-EEC European countries, to bring down the Common Market tariff. After much bickering and behind-the scenes work in all of the concerned countries, it was decided to hold the fifth round in Geneva, beginning in September 1960. The meeting was divided into two phases. The first was devoted to renegotiation of various concessions granted to GATT members at earlier rounds. The chief feature of the first phase was the negotiations required to provide appropriate tariff concessions in the common external duties of the EEC to replace concessions granted previously by individual EEC members. Forty countries participated. The second phase included both negotiations among Contracting Parties for new or additional concessions, and negotiations between Contracting Parties and countries desiring to accede to the Agreement. It is this latter phase which is generally referred to as "The Dillon Round." Twenty-eight countries participated in that phase.

The first phase was particularly onerous due to the large disparity between tariff rates in the "low tariff" EEC nations, specifically the Benelux

countries, and the "high tariff" ones. The EEC sought to have accepted the arithmetic mean of the tariffs involved. This problem took over nine months of extremely hard work to resolve, but in the end GATT was established as a "strong and reliable instrument where even such a powerful economic block as the Six could be made to conform."[20] At the conclusion, many nations had yielded a considerable bit of sovereignity over tariffs and trade to the GATT.

In the first phase negotiations, the United States first relinquished its rights, as country of initial negotiation or as principal supplier, to old concessions in the GATT schedules of the EEC members covering U.S. exports to those countries of about $1.5 billion. In place of these old concessions, the EEC granted the United States concessions in the common external tariff having a trade coverage of nearly $1.7 billion.

The Dillon Round, which lasted from May 1961 (the end of phase one) through July 1962, was again conducted on the bilateral, product-by-product basis, leading once again to a pessimism amongst the attendees. The old problems of politics, regionalism, and individual item protection, still existed and boded ill for the success of tariff negotiations.

The revival came, however, and ironically it was due to the EEC, the organization persons had considered to be the eventual downfall of the GATT. The Common Market started the round by proposing a 20 per cent across-the-board tariff rate reduction on most industrial items. The proposal, coming at

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[20] Ibid., p. 99.

a time when the United States Tariff Commission had provided their negotiating team with peril points on most individual items well above the 20 per cent cut level, showed the absurdity of the old product-by-product method. President Kennedy came to the rescue by releasing the peril point provisions, and most of the 20 per cent reduction was achieved. The end of the old methods had been signalled.[21] "The machinery of the old Reciprocal Trade Agreements Act of 1934, regularly renewed since, was creaking. It had been designed for a different world."[22]

Of the twenty-seven countries that participated in the conference, the United States completed negotiations with twenty-three of them in fifty-five separate agreements. Concessions were granted on products whose imports into the U.S. in 1960 were valued at $1.755 billion. These were broken down into $1.665 billion of imports granted tariff reductions; $24 million duty-bound; and $66 million were granted duty-free bindings. In return, concessions were granted on exports amounting to $1.564 billion worth of products to the twenty-three countries negotiated with.[23]

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[21] Douglas, America in the Market Place, pp. 107-110.

[22] Curzon, Multilateral Commercial Diplomacy, p. 100.

[23] Statistical data on the Dillon Round from: U.S. Tariff Commission, Operation of the Trade Agreements Program, 14th Report July 1960-June 1962, pp. 1-23; and U.S., Department of State, General Agreement on Tariffs and Trade Analysis of United States Negotiations 1960-61 Conference Geneva, Commercial Policy Series #186, 1962.

The Kennedy Round, 1964-1968

When he took office in 1961, President Kennedy already had his trade expansion program in mind. In large part it was aimed at modernization of GATT operations in order to effect the eventual liberalization of trade across-the-board. In particular, he recognized the challenge presented by the EEC, and was determined to provide machinery with which the United States could meet that challenge. He anticipated the addition of seven more countries to the EEC, and concluded that such a union would pose horrendous trade problems for the U.S. As discussed in Chapter III, one of his major programs was the liberalization of trade and the continued reduction of barriers to foreign commerce.

While the Dillon Round was still in progress, the Trade Ministers of Contracting Parties met in Geneva in November 1961 and declared:

> (1) that reductions of tariff barriers in accordance with the terms of the General Agreement should be continued;
> (2) that consideration should be given to the adoption of new techniques, in particular some form of linear tariff reduction; and
> (3) that these new techniques should be examined as soon as possible with a view to the early application of the recommendations resulting from such an examination.[24]

In October 1962, a GATT committee was appointed to work out the details of the procedures likely to be followed in the future.

In the meantime, the President's trade bill had been passed, and signed

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[24]Curzon, Multilateral Commercial Diplomacy, p. 103.

into law. The Trade Expansion Act of 1962 was designed to meet the challenge of the EEC head-on, and to provide American support for the three goals outlined by the Trade Ministers. Although the Act never specifically mentioned "linear" tariff reductions, it was clear that the President intended to use his 50 per cent tariff reducing authority in several ways. In preparing for the negotiating round, the United States representatives, headed by Christian Herter until his death in December 1966 and then by William M. Roth, considered all U.S. tariffs as susceptible to reduction with a minimum of specified exceptions.

The linear bargaining formula was not without its hazards. The GATT Ministers had set an across-the-board cut of 50 per cent as a "working hypothesis." The application of this principle, however, would entail detailed solutions to the problems of wide tariff disparities, agricultural programs, exceptions to the reductions, non-tariff barriers, and to the special problems of the less develoved countries (LDCs). In the end it was decided that each country participating in the round would be labeled; linear, special arrangement, less developed, or non-negotiating. Only fifteen countries, including the United States, the EEC countries and Japan, were included in the linear category. Thirty-one were either special or LDC, and forty-one were non-negotiating. Even with this arrangement, the complications were tremendous. In the final analysis, the United States granted concessions on imports for consumption totalling $8.5 billion. Of that,

concessions were made on $6.4 billion worth of imports at a level of 50 per cent or more, to the other fourteen linear countries.

The months leading up to commencement of the negotiations were filled with problems, proposals, counter-proposals, and, for the most part, non-solutions. The specific goals of the round could not be agreed upon; what would be accepted as bare minimum for the linear cuts was the subject of vigorous debate; and the rules of negotiation, particularly agreement on tariff schedules, were debated at length. Moreover, the "chicken war" erupted in July 1963, and for a while it appeared as if the entire round would be wiped out because of the animosities created. In the end, however, after preparations lasting from December 1962 right up to the opening of the conference, the Kennedy Round officially got underway on May 4, 1964.

The major goals were: (1) to achieve a substantial liberalization of world trade in industrial products; (2) to provide for acceptable conditions of access to world markets for agricultural products; (3) to make an effective contribution to the growth of the LDCs; and (4) to reduce non-tariff barriers.

In comparison to actual negotiations, the preparations for them were a breeze. Fifty-four countries met from May 1964 through June 1967. Seven of those countries were newly acceding to the Agreement. The meetings may well have gone on for an even longer period of time if it had not been for the pending expiration of the negotiating authority under the Trade Expansion Act of 1962. The United States' authority to enter into trade agreements

would expire on June 30, 1967. If negotiations were not complete then, the entire five year struggle would have been for nought.

The round went through several phases, each marked by a major crises or two. Trade and Aid arguments in the United States; De Gaulle's threatened withdrawl of France from the EEC; specific agricultural commodity problems, particularly the grains dispute; and many other problems caused anxious moments and took many hours of painstaking discussions to resolve. In early 1967, faced with a rapidly approaching deadline, the negotiators compromised on many problems and brought an end, just in time for the United States to legally sign the agreements, to the longest, most involved and largest in terms of trade involved, trade negotiations ever conducted. The results are just about as complicated as the negotiations themselves. Concessions were granted on trade valued at close to $40 billion out of a world trade of approximately $180 billion.

The major accomplishments were considerably less than the maximums achievable, but were significant and far-reaching. With respect to its major goals, the Kennedy Round can be evaluated as follows:

1. The average reduction of tariff rates on industrial products was 36 to 39 per cent of all major industrial countries. About two-thirds of the cuts were for 50 per cent or more, and steel and chemical tariffs were stabilized much more than they had ever been previously. Only modest reductions were accomplished in textiles. Machinery, transportation equipment, and chemical tariffs were all reduced substantially.

2. Agricultural results were far more mixed and generally less successful. Substantial tariff cuts were achieved on a wide range of products, but the special negotiations on grains, meats, and dairy products were not generally successful. The broad question of conditions of access to the world's markets remained unanswered. The agricultural sector remains the largest single problem area in international trade, largely because of national commitments to the domestic farmer. The problem is further complicated by parity levels, subsidies, and aid programs. These areas were discussed during the Kennedy Round but substantial solutions were not found.

3. A significant advance was made in the reduction of non-tariff barriers. A major accomplishment was the acceptance of the Antidumping (dumping is the practice of one nation flooding another's market with a specific product priced substantially less than the fair market value, thereby causing injury to domestic producers) Code. It contained many concessions by all concerned, and brought many national policies into closer harmony. A major feature of the Antidumping legislation was the United States agreement to seek, in return for various concessions, repealing the American selling price (ASP) method of valuation on certain chemical product tariffs. (The ASP has still not been repealed and continues to be a primary complaint from our trading partners. It is clearly in violation of the spirit and intent of the GATT.)

4. The LDCs emerged from the round better off than when they entered it, but not completely satisfied. The size of the average tariff

reductions to products of particular interest to those countries was approximately 30 per cent; substantial, but not as large as the average industrial cuts between the developed nations.[25]

The United States made concessions on a total of $8.5 billion of its imports for consumption in 1964. Tariff reductions were made on $7.9 billion, or 64 per cent of dutiable imports from all sources. Tariff bindings were made on $150 million of imports, and duty-free bindings on $400 million worth. Of the $8.5 billion, $680 million was imports from LDCs participating in the round. Of that amount, duty elimination was made on $350 million, duty reductions (almost all of 50 per cent) on $300 million, and duty-bindings of $30 million. About $610 million of the tariff concession imports were on agricultural goods from participating countries. The average percentage cut on nonagricultural tariffs on U.S. imports from the linear countries was 35 per cent. The average reduction from the linear countries on U.S. exports was 34 per cent.

In return for the concessions it granted, the United States received concessions on $8.1 billion worth of exports. Of this total, $7.6 billion was to the other major participants in the Kennedy Round. Six point seven

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[25] For an in-depth analysis of the Kennedy Round, see: Preeg, <u>Traders and Diplomats</u>. The above evaluations are found on pp. 256-260.

billion dollars consisted of tariff reductions or elimination; $845 million of duty-free bindings; and $69 million in tariff bindings.[26]

The concessions granted by the United States at the Kennedy Round were to be put into effect in five stages, the first on January 1, 1968, and the fifth on January 1, 1972. These concessions covered more trade and were of greater scope and size than any previous rounds. Although many critics have called the round a failure, because of its length and many unforeseen obstacles, and lack of 50 per cent across-the-board tariff reductions, the scope of the round was such that it is, without a doubt, one of the most, if not the single most, important events in the world's trade history.

Summary

The Trade Agreements Program has carried this country from high tariff status to low tariffs in thirty-six years. In 1931, when the Smoot-Hawley Tariffs took effect, the average ad valorem equivalent tariff rate on dutiable imports for consumption was 53.2 per cent. In 1970 it was 10.0 per cent. Even more significant, however, is the increase in the proportion

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[26]Statistical data on the Kennedy Round from: U.S., Tariff Commission, Operation of the Trade Agreements Program, 19th Report 1967, TC Publication 287; and U.S., Office of the Special Representative for Trade Negotiations, General Agreements on Tariffs and Trade, 1964-67 Trade Conference Geneva, Switzerland, Report on United States Negotiations, Volume I, pp. i-xii.

of total imports for consumption that dutiable imports have made. In 1931, 33.4 per cent of the total imports were dutiable, contrasted to 65.1 per cent in 1970. The implication is that it became increasingly cheaper to import dutiable commodities because of the ever decreasing duties.

That the GATT has been a major contributor to this liberalization, there can be no doubt. It is questionalbe whether or not the old machinery of of bilateral negotiations could ever have reached the point we are at today, not to mention doing so in twenty-three years. From the U.S. perspective, the first and sixth rounds of GATT tariff negotiations were by far the most fruitful. At the first round the United States granted concessions on 77.5 per cent of its imports for consumption; at the sixth round 45.6 per cent. (See Table 2, page 73.) However, as mentioned in Chapter I, comparisons of this nature are not always meaningful. The important fact is that in each case the United States was able to lead in the quest for world trade expansion and liberalization, and largely through its efforts, has brought about substantial reductions in trade restrictions.

We have discussed, in Chapter III, what our trade programs and policies have been, and, in Chapter IV, the means by which we sought trade liberalization. It is now in order to examine our trade history with individual areas of the world. The effect our programs and policies have had on trade with our most important trading partners will be reviewed in Chapter V.

CHAPTER V

TRADING PARTNERS AND TRADE LEVELS

General Discussion

The United States accounts for approximately 20 per cent of total world imports. It has eighty separate trade agreements in force, and imports from over 130 individual countries. Of the total imports in 1969, however, 73.1 per cent came from only twelve of those trading partners. Sixty-four point four per cent of the total came from six of those twelve. General imports (merchandise entered immediately upon arrival into merchandising or consumption channels, plus commodities entered into bonded warehouse storage--as compared to imports for consumption) in 1969 from all sources were $36.043 billion. Our six leading trade partners supplied $22.228 billion; the next six another $4.136 billion. Similarly, the United States exported a total of $38.006 billion in 1969 (includes reexports of foreign produced merchandise as well as domestic products), $25.653 billion of it to the same twelve major partners.

The economic and trade implications of our policies, programs, and legislation are best seen in the light of trade levels. Also, the trend of the

TABLE 3

MAJOR TRADING PARTNERS 1969
(Trade in millions $)

Country or Region	U.S. General Imports	% of Total	U.S. Exports	Other Nation's % of Total Imports	Total Trade
Total	$36,034	100%	$38,006	---	$74,049
Canada	10,384	29	9,137	73%	
Japan	4,888	14	3,490	27	8,378
EEC	5,798		7,005	10	12,803
Germany	2,603	7	2,142	10	4,745
Italy	1,204	3	1,262	11	2,466
France	842	2	1,195	8	2,037
Belguim-Luxemborg	683	2	960	8	1,643
Netherlands	466	1	1,447	10	1,913
United Kingdom	2,120	6	2,335	14	4,455
Mexico	1,029	3	1,450	62	2,479
Venezuela	940	3	708	50	1,648
Australia	588	2	855	25	1,443
Brazil	617	2	672	30	1,289
Hong Kong	814	2	364	13	1,178
India	344	1	517	29	--
Switzerland	452	1	605	8	1,057

SOURCE: Overseas Business Reports, OBR 70-74, and OBR 71-009.

trade levels, whether they are increasing or declining in relation to the total market, will give fair indication of the direction those policies have aimed. This chapter will examine, in broad generalities, the effects that those policies have had on trade with our major trading partners, plus two specialized "groups" of trade partners that occupy a significant portion of our attention. In this way, it is hoped, the overall effect of our trade programs will be in evidence. It is recognized that this review will not cover 100 per cent of our world trade. It will, however, cover the bulk of that trade in both economic and political terms. It is believed that this can be done by studying our trade with Canada, Japan, the six countries of the European Economic Community (EEC), the United Kingdom, the conglomerate categorization of Less Developed Countries (LDCs), and the Communist Nations.

In choosing the above six trading partners, it was recognized that two important trade blocs were not included. These are the countries of Central and South America, and those of the European Free Trade Association. The countries of Central and South America, almost to a nation, are also classified as LDCs, and therefore policy towards them will be reviewed in that section. Also, even though Mexico and Brazil are among the top twelve trading partners, there is little in the way of trade policy that effects them or their Latin American neighbors, that does not also effect our trade with Europe or Canada, and will be covered in those sections. EFTA is not

covered in detail because its only significant feature is a common internal tariff, and each individual country's external tariffs are the subject of bilateral negotiation and individual assignment.

The purpose of this chapter is to attempt to put all that has been reviewed before into some kind of perspective: to analyze what has happened as a result of the Presidential programs, legislative actions, trade agreements, and tariff negotiations that have taken place since 1945.

Canada

Our neighbor to the north shares with us the longest unpatrolled national boundary in the world. She also shares with us the largest single trading partnership in the world. The 1946 to 1950 average yearly Canadian exports to the United States was $1.424 billion.[1] In 1969 it was $10.383. Twenty-nine per cent of our 1969 imports came from, and 24 per cent of our exports went to, Canada. The United States' share of total Canadian imports was 73 per cent. Seventy-one per cent of her exports came to this country. The most important imports, in terms of dollars, from Canada are lumber, newsprint, wood pulp, cars and trucks, machinery, and petroleum products. In return, we send Canada machinery, chemicals,

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[1] U.S., Department of Commerce, Foreign Commerce and Navigation, 1946-1964, (Washington, D.C.: Government Printing Office, 1965), Table 11, p. 35.

electrical apparatus, and large transport equipment, as well as a host of other commodities of all classes.[2]

The most important legislation specifically concerning U.S.-Canadian trade was the Automotive Products Trade Act of 1965. As mentioned in Chapter III, this act removed all tariffs on Canadian automobiles and automobile parts. These tariffs had been between 6.5 and 8.5 per cent. In return for the passage of this act, and the U.S. automakers agreements to manufacture more of their cars in Canada, the Canadian tariff on U.S. autos was abolished. These two tariff eliminations were agreed to under the exceptions to the most-favored-nation clause of the GATT at the Kennedy Round. In 1964, the year before the agreement, trade in automotive products between Canada and the U.S. was $730 million, $654 million of which were U.S. exports. In 1965 the corresponding figures were $1.1 billion and $860 million; in 1966, $2.1 billion and $1.3 billion. This immense increase in automotive trade between the two countries was undoubtedly at least partially due to the elimination of tariffs.[3]

Considerable progress was made between the two countries at the Kennedy Round of GATT negotiations. The U.S. granted Canada $1.403 billion (1964 levels) in duty reduction concessions, and $1.2 million

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[2]U.S., Department of Commerce, Overseas Business Reports, OBR 70-74 December 1970, "United States Trade With Major Trading Partners 1965-1969," Table 5, pp. 11-15.

[3]Operation of the Trade Agreements Program, 19th Report, pp. 97-100.

duty-free bindings. In return, Canada granted the U.S. $1.257 billion in duty reductions, $4.5 million in duty bindings and $181 million in duty-free bindings. A significant feature of these negotiations was that the U.S. added $480 million of Canadian imports to the duty-free list, in return for about $100 million worth of the same type concessions; however, the Canadian concessions were on generally higher tariff rate articles.[4]

Japan

The trade relationship between Japan and the United States is at once volatile, yet large and growing larger. It is volatile, as evidenced by the textile agreements controversy mentioned in Chapter I. It is the second largest trading partnership the United States has now, and the rate at which that trade increased during the ten years from 1960 to 1970 was faster than any of the other trade partnerships we have. In 1969 the U.S. accounted for 27 per cent of Japan's imports, $3.490 billion, and received 31 per cent of her exports, $4.888 billion. These figures are startling when it is remembered that our trade with Japan was zero in 1944, and that she did not accede to the GATT until 1955. Her average 1951-1955 imports from the United States were only $255 million worth of exports to the U.S. In 1960

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[4]1964-67 Trade Conference Geneva, Switzerland, Report on United States Negotiations, Volume I, pp. 20-25.

the trade level was: \$1.341 billion worth of U.S. exports to Japan; and \$1.126 worth of imports from her.[5]

In 1963 Congress passed, and President Kennedy signed, a bill permitting subsidies to U.S. mills to buy cotton at the world price. The act was aimed, in part, at Japanese competition. In 1967, Congress considered a bill to require investigation of low-wage imports damage to U.S. industries that was directed right at Japanese imports. The portions of the 1962 Trade Expansion Act and the pending 1971 Trade Bill that provide protection in the form of quotas and subsidies to the domestic textile industry are directed right at Japanese competition. The 1967 bill did not pass the Senate, and it is yet to be seen if the 1971 version will, and if it does, if the textile protections will be left in. In any event, it is clear that much United States effort has gone into attempts at blunting the Japanese competition.

This is not to say that U.S.-Japanese trade cooperation has been lacking. The concessions granted each other at the Kennedy Round were considerable. The U.S. granted concessions on imports for consumption valued at \$1.176 billion (1964 levels), consisting of \$886 million in duty reductions and \$290 million in duty-free bindings. Six hundred and nine million dollars of those tariff reductions were at the 50 per cent level. In

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[5] Overseas Business Reports, OBR 70-74, Table 9, pp. 26-29.

return, Japan granted $1.463 billion in concessions; $1.457 of it in duty reductions, $952 million of which were for 50 per cent.[6]

It is certain that United States-Japanese trade will continue to grow as will their economies. The textile issue now flaring up may give rise to some temporary setbacks and animosity, but the two markets are too dependent upon one another and too well established not to flourish. Besides textile and clothing, the United States imports large quantities of automobiles, machinery, iron and steel-mill products, electrical and electronic equipment, and, of course, the famous Japanese transistor radios, TVs, and recording equipment. In return, Japan buys large amounts of food and beverages, lumber, iron and steel scrap, soybeans, coal, and sophisticated machinery. Japan is the largest single market for U.S. agricultural exports. These markets will remain and most likely continue to grow: "Neither the United States nor Japan can afford to lose each others' market."[7]

The EEC

Trade with the six Western European nations which make up the EEC and the European Coal and Steel Community (ECSC), in other words The

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[6] 1964-67 Trade Conference Report on United States Negotiations, Volume I, pp. 34-37.

[7] Alfred K. Ho, The Far East in World Trade (New York: Frederick A. Praeger, Publishers, 1967), p. 217.

Common Market, is conducted on an individual, nation-by-nation basis. There is no trade with the EEC, as such. However, since all six of the countries involved (Belgium and Luxembourg are usually treated as one) are among the twelve top trading partners of the United States, and since laws and regulations applying to one generally affect all of the others, and since the EEC applies a common external tariff as well as internal free-trade, this section will deal with trade between the U.S. and the EEC as a single economic entity. When viewed this way, the EEC comprises the second largest trading partner of the United States. In 1969, U.S. imports from the six EEC countries totalled $5.798 billion, and exports were $7.005 billion. Table 3 provides a breakdown of these figures into individual country trade levels.

Individually, West Germany ranks as the third largest trade partner of the United States, Italy the sixth, France the seventh, Netherlands eighth, and Belgium-Luxembourg tenth. Total trade figures with these nations in 1969 are somewhat staggering when compared with 1951-1955 levels. During that period, U.S. imports averaged $995 million, and exports $1.882 billion.[8]

The primary events concerned with U.S.-EEC trade have to do with the EEC's gradual conversion to a duty-free union beginning in 1957, and

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[8]Foreign Commerce and Navigation, Table 6, p. 21 and Table 11, p. 35.

being completed in July 1968, and the rest of the world's response to that conversion. Much has been written about the EEC's overt and undisguised discrimination in trade with external countries.[9] This is partly due to protectionism fostered in order to promote intra-market trade, and also partly due to a series of "preferential treatments" offered various trading partners. These preferential arrangements are between one or more of the EEC countries and various trading partners or regional blocs, usually deriving from previous colonial association or proximity to the EEC. As a whole, the EEC's external tariffs on non-agricultural products are low, and cause little problems in trade with the United States.

Agriculture is the largest source of friction the EEC has with external trading partners, as indeed it is among the six partners themselves. The chicken war exemplified these problems, as did the complicated bargaining and negotiations leading to the World Grains Arrangement. For example, during the Kennedy Round, the EEC made concessions on only $238 million of U.S. agricultural exports, or 27 per cent of the U.S. trade available for concessions. In return, and in order to receive even that level of trade concessions, the U.S. granted concessions on $122 million of agricultural imports from the Common Market, or 60 per cent of the entire total of that trade.[10]

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[9] Douglas, America in the Market Place, pp. 122-124; and, Operation of the Trade Agreements Program, 19th Report, p. 118.

[10] Operation of the Trade Agreements Program, 19th Report, pp. 121-125.

Nevertheless, progress has been made on all fronts, and the trend of trade indicates it will continue to be made. If the EFTA countries (Austria, Denmark, Finland, Ireland, Norway, Portugal, Sweden, Switzerland, and the U.K.) ever are able to integrate into the EEC, U.S. imports from the Common Market would be increased by approximately 60 per cent. As it is, the EEC represents the largest trading bloc in the world, and United States trade policy must continue to seek reduced restrictions and increased markets with it. Of course, the ideal solution would be the creation of one, integrated Atlantic free-trade area, compromising the EEC, EFTA, the United States and Canada. At present, however, such an arrangement seems far off, so our efforts must be continued toward negotiations of the Kennedy Round type.[11]

The United Kingdom

Not a great deal needs to be said about the United States trade with England, other than that it has increased steadily since the war. In 1969 we imported $2.120 billion in goods from the U.K., as compared to the 1946-1950 average of $240 million. After the war, the U.K. was our fifth largest supplier of goods, and in 1969 the fourth largest. Exports to the U.K. have also increased markedly, rising from a 1946-1950 average of

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[11] Bela Balassa, "American Attitudes Toward Trade Liberalization in the Atlantic Area," in Changing Patterns in Foreign Trade and Payments, ed. Bela Balassa (revised edition: New York: W.W. Norton & Company, Inc., 1970), pp. 48-60.

$765 million to $2.335 billion in 1969. Although the balance is still in favor of American exports, the gap has closed considerably, due primarily to the liberalizing effect of our tariff reducing policies. The United States supplied 14 per cent of all U.K. imports in 1969, and received 6 per cent of our imports from her.[12]

Much of the U.S.-U.K. trade discussion over the years has concerned various preferential treatments the U.K. has always granted Commonwealth countries--the Commonwealth Preference Area (CPA). These arrangements are within the rules of the GATT, but still they cause disharmony. For example, during the Kennedy Round, the CPA nations exerted great pressure on the U.K. to maintain its tariff levels on tobacco and soybeans imported from other than CPA sources, thereby providing the Commonwealth a decided advantage over the United States as well as other countries. Concessions were finally made to the U.S. on soybeans, but tobacco tariffs remained as they were.[13]

Less Developed Countries

Much has been written in recent years concerning the "third world" of emerging nations. In the fields of economics and trade, these, as well as

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[12] Foreign Commerce and Navigation, Table 6, p. 21 and Table 11, p. 35; and Overseas Business Reports, OBR 70-74, Table 12, pp. 36-38.

[13] 1964-67 Trade Conference Report on United States Negotiations, Volume I, p. 46.

some of the long established sovereign states, are referred to as LDCs. Their problems are immense and crying for solutions. Just which countries make up the LDCs, however, is subject to interpretation. As decided by the GATT at the Kennedy Round, LDCs would be designated on the basis of per capita income, but in certain marginal cases that criteria does not always provide an accurate determination. For example, Yugoslavia and Israel normally consider themselves LDCs, but clearly are in the middle bracket in per capita income.[14] In general, however, all the countries of the world except the United States, Canada, those of Western Europe, Japan, Australia, New Zealand, South Africa, and the centrally planned economies of Eastern Europe, the U.S.S.R., China, and Eastern Asia, are considered LDCs. These would include most African nations, almost all Central and South American countries, and most of the island nations of the world, as well as all the rest of the nations of Asia.[15]

Because of the diverse nature of these countries, it would be inaccurate to say that the United States has one trade policy with respect to the LDCs. In general, however, the U.S. has attempted some methods of trade liberalization designed specifically to open new markets and expand opportunities for the LDCs. For example, the Trade Expansion Act of 1962

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[14] Operation of the Trade Agreements Program, 19th Report, pp. 172-173.

[15] Michael Zammit Cutajar and Alison Franks, The Less Developed Countries in World Trade (London: The Overseas Development Institute Ltd., 1967), pp. 27-28.

contained certain authorities for the President to remove duties on agricultural and forestry products of those nations, providing U.S. production of the same products was not damaged significantly. (This action met with little success, however, since the "no significant damage" clause, as might have been expected, proved too difficult to administer.) Also, the U.S. leadership in concluding the International Grains Arrangement and, to a very large degree, GATT itself, was instrumental in improving the trade position of the LDCs. Conversely, however, most agreements and arrangements the U.S. has entered into, which will eventually stabilize LDC trade and income, have been entered for purely selfish economic reasons; e.g., The International Sugar and Coffee Agreements. Also, the U.S. agricultural program is full of parity pricing and subsidy granting to farmers growing many of the products the LDCs depend so heavily upon for their international trade, tobacco, cotton, vegetable oils, and nuts are examples.[16]

In general, the proportion of U.S. trade with the LDCs to total U.S. trade has been decreasing in recent years, even though the absolute level of U.S.-LDC trade has been increasing slightly. In 1960, 32 per cent of all U.S. exports went to LDCs and 40 per cent of our imports came from them.

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[16] Cutajar and Franks, The Less Developed Countries in World Trade, pp. 123-126; and, Operation of the Trade Agreements Program, 19th Report, pp. 215-225.

In 1965 these percentages were 31 per cent and 32 per cent respectively, and in 1969, 29 and 28 per cent.[17]

Mexico, the largest single trading partner generally classified as an LDC, shipped an approximately constant 60 to 65 per cent of its total exports to the United States throughout the 1960-1970 period. Her imports from the United States declined in proportion to total imports, from 69 per cent in 1964 to 62 per cent in 1969.[18]

Trade with Cuba, another Western Hemisphere LDC, plummeted after the revolution in 1959. After the war Cuba was our fourth largest trading partner, receiving an average of $409 million worth of our exports and sending us an average of $399 million of imports during the period 1946-1950. In 1965 imports from Cuba had trickled to $9,000 worth, and exports were $5,000.[19]

Imports from several of the other major LDCs, such as India, Brazil, Colombia, and Malaysia, while being important in terms of size, have remained fairly constant since the war, or have increased slightly. Exports to those countries have generally increased on the order of two-fold during the same period. Exports to India increased dramatically between 1962 and

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[17] Ibid., p. 124.

[18] Overseas Business Reports, OBR 71-009, Table 14, p. 24.

[19] Foreign Commerce and Navigation, Table 6, p. 21 and Table 11, p. 35.

1967 because of the sale of wheat and other grains to her, but then returned to a normal level for the past three years.[20]

The only non-possession preferential trade agreement the U.S. has in force is with the Philippines. In 1946 Congress passed The Philippine Trade Act. It was revised in 1955. Essentially it calls for preferential tariff treatment between the two countries until 1974. Principal products concerned are Philippine sugar, cordage, tobacco, and cigars. After 1974 the tariffs on these products, and all others between the two nations, will equalize with all other like tariffs in force, having been increasing at an agreed upon rate since the signing of the agreement.[21] U.S.-Philippine trade has risen slightly since the war. Imports from the Philippines averaged $174 million from 1946 to 1950, while exports averaged $377 million. In 1969 imports were $423 million and exports $374 million.

A proper summation of our trade policy towards the LDCs could probably be termed "benign neglect." While we have cooperated with all of the efforts to assist in their development, and have even led in some, and have offered trade relief wherever it did not threaten "significant damage" to domestic industries, we have put forward very little in the way of positive, forceful actions. President Kennedy's "Alliance for Progress" with Latin

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[20] Overseas Business Reports, OBR 71-009, Table 11, p. 20.

[21] Operation of the Trade Agreements Program, Ninth Report, pp. 107-110.

America was the type of program sorely needed by all of the LDCs. Unfortunately, the Alliance has run into major problems before its beneficial effects could be fully realized and long before trade could take the place of aid. In the meantime, we continue our policies of treating all trade partners as equals, giving unto them in proportion to what they can give unto us, and the proportion the LDCs can give, and therefore receive, continues to decline with respect to the rest of the world.

The Communists

The subject "trading with the Communists" is almost as diverse as that of trade with the LDCs. In it is included trade with the U.S.S.R., Eastern Europe, China, and the East Asian Communist nations. In many respects, Cuba and the U.A.R. could also be considered in the same classification, but since they both fit into the LDC category easily, this section will deal only with the areas mentioned.

Although the three major Communist regions can be lumped together for certain discussions, the history of United States trade with them, and the regulations governing trade with them are, separate. They will be divided for purposes of this discussion.

Trade with China was large and vigorous during and just after the war. Exports to her amounted to an average $244 million from 1946 through 1950, with imports from her averaging $112 million during the same period.

Nineteen forty-nine was the year of the Communist takeover and trade began to diminish rapidly, until by 1952 it was less than one million dollars per year. (These figures take into account only direct trade with Communist China. Until 1964, a substantial trade, about $3.6 million per year, existed with Outer Mongolia, and there has always been the problem of bootleg Chinese goods through the port of Hong Kong.) The U.S. embargo on trade with China was enacted in 1950, and in 1951 the UN also placed a total embargo on all trade with China. The pattern of our trade with the other Communist countries of East Asia, namely North Korea, North Vietnam, Inner Mongolia, etc., is essentially similar to that of trade with China. Once the Communists took over it was just a matter of time before trade became essentially zero.

Trade with Eastern Europe (Albania, Bulgaria, Czechoslovakia, Estonia, Latvia, Lithuania, East Germany after 1948, Hungary, Poland and Rumania--Yugoslavia is generally not considered in the Communist trading region, having followed an independent course since 1949) has followed a somewhat erratic pattern since the end of the war. With the commencement of the cold war, trade declined slowly until a low was reached in 1952. It then began a steady, but gradual, rise until 1965, when it dipped sharply, probably due to animosities caused by Vietnam, but has risen again since then. Exports to Eastern Eruope have been: an average of $134 million from 1946 through 1950; an average of $87 million from 1950

through 1955; $154 million in 1960; $94 million in 1965; and $233 in 1969. In the same years, our imports from those nations have been: $27 million; $47 million; $57 million; $96 million; and, $144 million. During the entire post-war period, U.S. imports from Poland, mostly in ham and sausage, have constituted well over half of the total.

Trade between the United States and the U.S.S.R. has been a story of its own. It will suffice here to relate gross totals and basic events that have governed those totals. U.S.-U.S.S.R. trade followed essentially the same pattern as that for U.S.-Eastern European trade. Exports to Russia, after the $10 billion lend-lease arrangements during the war were : an average of $110 million from 1946 through 1950; essentially zero in 1952; $38 million in 1960; $145 million in 1964; $45 million in 1965; and $106 million in 1969. Imports from the U.S.S.R. were: $68 million; zero; $22 million; $20 million; $43 million; and $52 million.[22]

The major statutes that regulate trade with the Communists are: the Export Control Act of 1949 which empowers the President to bar or limit exports to further foreign policy or national security interests, or to cope with domestic shortages or inflation; the 1917 Trading with the Enemy Act which empowers the President to regulate all transactions between Americans and foreigners during time of war or declared national

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[22]Statistics for the entire section from: Foreign Commerce and Navigation, Tables 6 and 11; and Overseas Business Reports, OBR 71-009,

emergency; and the Mutual Defense Assistance Control Act of 1951 (the Battle Act) which prohibits U.S. aid to any country shipping arms to the Communist bloc. In 1950 the United States imposed total embargoes on trade with Communist China, Manchuria, North Korea, and Inner Mongolia, in 1954 on North Vietnam, and in 1960 on Cuba, under the Trading with the Enemy Act and Export Control Act. The export of arms, strategic and critical materials to the U.S.S.R., Outer Mongolia, and Eastern Europe was forbidden beginning in 1949 under the Export Control Act. In 1951 the controls were tightened under the Battle Act.

The major exception to the embargo on trade with the U.S.S.R. and Eastern Europe has been agricultural products, particularly wheat. With the poor crops of 1963 compounding their general agricultural problems, these countries were desparately in need of wheat and other grains in 1964. Sixty-three million bushels of U.S. surplus wheat was sold to Russia, and consequently, exports to the country show a large peak in that year.

Another exception to the general rule of little or no trade with the Communists has been Poland. The United States has attempted to encourage and expand trade with Poland, just as it has with Yugoslavia, hoping to foster an independence from the U.S.S.R.

In 1965 President Johnson attempted to seek ways to liberalize all trade with the U.S.S.R. and Eastern Europe. He established an advisory committee to study means of expanding this trade. The group brought forth

proposals that the Administration eventually put into the East-West Trade Relations Act, which essentially would have given the President authority to extend favorable tariff treatment to Eastern European countries and the U.S.S.R. if he thought it would be in the national interest. The bill was sent to Congress in 1966, but it never came to the floor of the Senate. Mr. Johnson's final attempt to "build bridges" with those Communist countries was a bill to help the Export-Import Bank finance an Italian auto venture in the U.S.S.R. Once again Congress blocked the measure, and the deal was eventually made through different channels.[23]

Summary

United States foreign trade has expanded greatly since World War II. Some trading partners have changed, but others have remained major importers and exporters of U.S. goods. Referring to Appendix A, we see that U.S. imports for consumption grew from $4.098 billion in 1945, or a total equal to 1.93 per cent of our GNP, to $34.768 billion in 1970, equivalent to 4.1 per cent of the GNP. This would seem to indicate a very definite, if slow, upward trend in the importance of imports in our economy. At the same time exports have risen, but not nearly so dramatically. The

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[23] Congressional Quarterly Service, Congress and the Nation, 1965-1968, pp. 64 and 96-97.

world, greatly dependent on U.S. products after the war, consumed \$10.309 billion worth of them in 1945. In 1970, U.S. domestic exports were \$42.593 billion. Perhaps this closing of the (X-M) gap can be atrributed to a liberalized foreign trade policy.

The figure in the last column of Appendix A, that of "ratio in per cent of imports for consumption to output component of GNP" is an interesting one. It too seems to suggest a very definite upward trend, increasing from 3.18 in 1945 to 8.4 in 1970.

Another statistical method of examining our degree of trade liberalization is that of "average ad valorem equivalent tariff rates on imports for consumption." This hypothetical figure ostensibly measures a country's average duty level. Ours has dropped from the all-time high in 1932 of 59.1 per cent, to 29.0 per cent in 1945, and to an all-time low of 10 per cent in 1970. The immeasurable quantity, and one of great importance, is just how much non-tariff barriers have replaced the tariff as the primary restriction to imports while this seemingly liberal tariff reduction period was in progress?

We have now covered the history of our trade policies and legislation; of our trade agreements program; and of our trade with major trading partners and areas. This completes the historical portion of this paper. It is now time to draw some conclusions, and to speculate just a bit into the future of United States foreign trade.

CHAPTER VI

CONCLUSIONS

Free Trade vs Protectionism

That there has been progress during the past twenty-five years toward the reduction of United States tariffs and trade barriers there can be no doubt. This country, from all historical evidence, has been the leader in seeking expanded world trade, lower tariffs, vast markets for every country's goods, and broadened opportunities for all nations, rich or poor. The question really comes down, then, to whether or not we have done enough; or, recognizing the term "enough" as idealistic and non-quantifiable, perhaps the more pragmatic question would be, have we done all we could?

As demonstrated in Chapter II, the roots of our trade liberalization go back to the depression. The name that stands out above all others in the annals of foreign trade expansion and liberalization must be that of Cordell Hull. The beginning was in 1934. The Trade Agreements Act was the most significant foreign trade legislation in American history. Once that was a matter of record, the way was clear for subsequent utilization, expansion,

and improvements. From 1945 through 1970, the period in question, the fruits of that act were realized. It was improved upon in 1945, 1955, 1958, and in 1962 an even more liberal law was passed. Also, its influence was transmitted world-wide in 1947 when the GATT was signed.

The foreign trade achievements of the administrations in office over the past twenty-five year period can only be considered mixed, at best. Presidents Truman and Kennedy receive the highest grades. Truman for his successful sponsorship of the Extension Act of 1945, the Geneva Conference of 1947, the GATT that resulted, and the second round negotiations in 1949. Kennedy's Trade Expansion Act is the second most important trade legislation in American history, not only for its considerable liberality, but also because it will undoubtedly be the model for future trade bills for many years to come. The round of GATT negotiations which bear his name must surely be credited in large part to his initiative, leadership, and perserverance.

Presidents Eisenhower and Johnson can be given A s for effort, but little more. The status quo was held during their administrations. Perhaps that is enough when one considers the strong protectionist sentiment they encountered during their times.

President Nixon probably rates the lowest grades of all. It is far too early to judge him, but from what we have seen, free trade advocates will probably consider themselves fortunate if at the end of his Presidency no

stringent protectionist measure has been passed. In his favor it must be admitted that protectionist sentiment is rampant, both in the Congress and in industry. A good deal of this is caused by the economic downturn of recent recent years. But it is hard to ignore the fact that the proposed 1969 Trade Bill, by its provision for mandatory quotas on all imports and significant reductions in textile quotas, encouraged many of the protectionist industries and led to a "follow-the-leader" assault on low tariffs and high quotas.

A significant fact which is apparent throughout Chapter III is that, despite what the President wants or proposes, the really protectionist body in this country is the Congress. The House probably more so than the Senate, but at times the Senate has been the stumbling block to liberal trade legislation. Perhaps all this is as it should be. The Congress is elected by the people who in turn work at jobs in industries that must compete with foreign goods as well as with each other. It is understandably difficult to ask a Congressman to vote for a measure that would have the effect of lowering the price of shoes or clothing a few pennies for all the nation, when it would also put some of his constituency out of shoe factory or textile mill jobs. It can only be hoped that enough constituencies are not effected by each bill that the majority of Representatives will favor the overall lower prices. Which leads to a discussion of just why so many Congressmen, whose districts are not effected by a particular quota or tariff bill will vote for it anyway. The conclusion can only be that politics govern foreign trade.

Despite our idealism and all of our rationalization about the benefits of expanded trade being passed out to everyone, the entire issue boils down to just what is politically expedient and what isn't.

Lobbying, probably more than any other, is the most American of our political professions. Our lobbyists on Capitol Hill are a formidable force in all issues of the day, but trade policy is one of their most consistent targets. It is easy to see, by the number of quota bills, the strong anti-liberal debates, the "education" campaigns, etc., that industry (protectionist) forces are well organized, specific-issue oriented, and well financed. On the other side, those who would advocate and foster free trade, the economists, academicians, consumer groups, and international-minded businessmen, are poorly organized and factionated. They have little, if any, political power or combined influence. It is a wonder we've come as far as we have.

Despite the odds, however, there are many facts that support the contention that we've pursued free trade policies since the war. As discussed in the preceeding chapters, the most important of these are:

- Tariff reductions, through the authority of the trade bills and the medium of the GATT, have been significant. The average ad valorem equivalent rate of duty on dutiable items has declined from 29 per cent in 1945 to 10 per cent in 1970. How much of this is due to inflation is rather immaterial in the face of the primary fact of a decline in the rates of duty.

- Imports have played an increasing role in our daily lives, rising from an equivalent of 1.93 per cent of the GNP to 4.1 per cent.

- Imports have increased at a much greater rate than have exports (a fact which gives rise to other problems which are without the scope of this paper), 970 per cent to 413 per cent.

- Dutiable imports have increased in proportion to total imports, 38.6 per cent to 65.1 per cent, indicating a definite easing of import restrictions and lowering of tariffs.

- Customs procedures have been streamlined and simplified.

- United States leadership has been significant and constant in GATT and other international organizations fostering expanded world trade and the betterment of life on a world scale.

- Our eighty trade agreements in effect have all resulted in some specific lowering of tariff or non-tariff barriers.

- Trade with Canada has been cleared of the majority of tariffs and barriers. If all of our trade were as free as that with our neighbor to the north, we would be nearly to the point of true free trade.

- Participation in, and sometimes leadership of, the various international commodity agreements (wheat, coffee, tin, sugar, etc.), while not always being as liberal to the producing nations as it could be, has served to stabilize these markets and insure against severe losses in the case of poor crop years.

Conversely, there are facts that indicate a not so liberal trade attitude. The most important of these are:

- The failure of the United States Congress to ratify the charters of the two proposed world trade organizations, ITO and OTC.
- The increasing use of non-tariff barriers. The most important of these are parities, subsidies, and some embargoes on agricultural goods, and the low quotas on textiles, petroleum products, iron and steel, lead, zinc, and many other products.
- The embargoed Communist trade.
- The repeated debate in the Congress whenever a liberal trade measure is submitted, and the just as predictable pattern of quota bills every time one industry gets some minor preferential treatment.
- The lack of a truly openhanded and consistent policy of trade expansion with the Less Developed Countries. This is one area that the United States can justly be accused of watching the dollars instead of the heartstrings.

The facts have been reviewed. The question now is, simply, "free trade" or "protectionism"? The answer cannot be that simple. Yes, the Presidents have attempted to lead the country toward expanded trade, lower tariffs, and zero non-tariff barriers. But Congress, that great protector of the people, has continually showed a protectionist bent. The best answer would probably be the hedged one of: "yes, we have followed a freer trade advocacy since World War II, but we have not taken the necessary steps to reach total free trade, and it is not likely that we will do so in the future." Therefore, that said, just what does the future hold?

The Future

The trade bill presently being considered in the House Ways and Means Committee is similar to the one passed by the House in the 91st Congress, but stalled in the Senate and finally shelved. It contains the same quota restrictions for textile imports and retention of the American Selling Price system of evaluation of certain tariff levels. It seems likely that, as occured last year, all of the protectionist industries and their supporters in Congress will attempt to gain similar favors for their products. A concession to one almost always signals the rest to come running.

Just what Chairman Mills has in mind for trade policy is hard to determine. His past record has definitely been one of liberalism. He has been a strong supporter, and at times an originator, of liberal trade measures. His turnabout on the 1970 bill was an enigma. It is interesting to speculate whether or not this change of direction was a very neat bit of reverse psychology on his part. Knowing that the Nixon Trade Bill was protectionist, but only to a limited extent, his whole-hearted support of the measure, and its quotas, opened the flood-gates for all of the protectionist legislation simmering just below the surface for years to come splashing to the surface. The sum total of all these restrictions was bound to be defeated after long and bitter controversy. Perhaps, and of course this is pure speculation, that is exactly what the Chairman had in mind all along.

In any event, it is certain that some form of trade bill will pass the

92nd Congress. If, as if very possible, several new quotas are included, for example shoes, oils, and chemicals, it is certain to spark retaliatory measures by Japan, the EEC, and perhaps many other parts of the world. It is extremely unlikely that any new tariff reductions will be negotiated during Nixon's presidency. For, as he said, "we cannot anticipate in the near future another big round of reductions." At present he has no reduction authority, the last granted by Congress having expired in June 1967.

In the meantime, from a free trader's point-of-view, there is much that needs to be done.

First, and probably most important in the wake of the Kennedy Round tariff reductions, is the growing problem of non-tariff barriers. The nature of the barriers and the wide differences in their implementation make an international agreement, under the auspices of GATT, increasingly necessary and urgent. It is time effective controls be placed on all forms of non-tariff restrictions before they have completely taken the place of tariffs, and perhaps even enlarged upon tariff restrictions.

Agricultural problems are next in priority. We must work toward solutions to the many diverse problems of agricultural embargoes, quotas, parity and subsidy programs, and increased domestic farm aid, on an international basis. Much of the needed help for the LDCs would be automatically extended if agricultural problems in world trade could be

solved. In this sector reform begins at home, but the need for it certainly is not restricted to the United States. Again, negotiations are needed.

The third major problem is that of freeing up export markets. While the United States has perhaps not done all it could to liberalize trade, in comparison to some of the other nations it is a giant in the field. Japan, for one example, maintains business and governmental policies prejudicial to the expansion of foreign investment or world trade. President Johnson said: "we are willing to give them competitive access to our market, asking only that they do the same for us." We must persuade our trading partners that comparative advantage works for them as well as for us.

Fourthly, trade with the Communists must be expanded. Although it is recognizably difficult to trade evenly between an enterprise system and a state system, solutions to differences can be found. There is too much at stake, politically, economically, and socially, to continue the disastrous policies of the past. Economic intercourse may prove to be the one sure way of easing world tensions.

Finally, the United States should immediately pursue expanded trade, perhaps even free trade, with Central and South America. It's time we stopped exploiting our neighbors by the "easiest path" policy of benign neglect. There is no reason why we can not show hemispheric preferences. We have nothing to lose, and a lot to gain. The recent elections in Chile are a harbinger of the trend. If our politics can't change this trend, our trade should be given the chance.

These things are but the top few of what this writer considers to be priority areas necessary if we are to continue our leadership role in the expansion of trade and the eventual acceptance of world-wide free trade. Unfortunately, I can see no possibility of these programs being actively pursued in the near future. It seems the United States under the present administration is going to be content to sit back on its free trade laurels of the past twenty-five years and allow an era of consolidation, yes, and protectionism, to settle in. We need another Hull, Truman, or Kennedy in high places if free trade policies are to be continued.

APPENDIX A

IMPORTS, EXPORTS, AND SELECTED STATISTICS: 1945 THROUGH 1970

Year	U.S. GNP (Billions $)	Imports for Consumption (Millions $)				Duties Collected			"Domestic" Exports (Millions $)	Imports for Consumption as a Percentage of GNP	Ratio (%) of Imports for Consumption to Output Component of GNP
		Free		Dutiable	Total	Amount (Millions $)	Ratio to Values				
		Amount	% of Total				Dutiable Imports	Free and Dutiable			
1931	$ 75.8	$ 1,391.7	66.6%	$ 696.8	$ 2,088.4	$ 370.8	53.2%	17.8%	$ 2,377	2.77%	5.61%
1939	90.5	1,397.3	61.4	878.8	2,276.0	328.0	37.3	14.4	3,123	2.54	4.69
1945	211.9	2,749.3	67.1	1,348.7	4,098.1	391.5	29.0	9.6	10,309	1.93	3.18
1946	208.5	2,934.9	60.8	1,889.9	4,824.9	498.0	26.4	10.3	9,950	2.30	3.84
1947	231.1	3,454.6	61.0	2,211.7	5,666.3	445.4	20.1	7.9	15,160	2.46	4.08
1948	257.6	4,174.5	58.9	2,917.5	7,092.0	4.7.4	14.3	5.9	12,532	2.75	4.60
1949	256.5	3,883.2	58.9	2,708.4	6,591.6	374.3	13.8	5.7	11,936	2.57	4.47
1950	284.8	4,766.8	54.4	3,976.3	8,743.1	529.6	13.3	6.1	10,146	3.11	5.36
1951	328.4	5,993.4	55.4	4,823.9	10,817.3	603.5	12.5	5.6	14,885	3.29	5.69
1952	345.5	6,256.9	58.2	4,490.5	10,747.5	574.7	12.8	5.3	15,051	3.09	5.47
1953	364.6	5,919.5	54.9	4,859.4	10,778.9	597.8	12.3	5.5	15,653	2.98	5.29
1954	364.8	5,667.9	55.4	4,571.6	10,239.5	556.9	12.2	5.4	14,983	2.81	5.18
1955	398.0	6,036.6	53.2	5,300.1	11,336.8	669.6	12.6	5.9	15,426	2.86	5.22
1956	419.2	6,234.5	49.8	6,281.2	12,515.7	739.2	11.8	5.9	18,950	2.98	5.55
1957	441.1	6,036.4	46.6	6,914.2	12,950.6	776.9	11.2	6.0	20,692	2.92	5.50
1958	447.3	5,341.6	41.9	7,397.9	12,739.4	832.2	11.2	6.5	17,754	2.84	5.50
1959	483.7	5,821.7	38.8	9,165.3	14,987.1	1,066.5	11.6	7.1	17,470	3.10	6.02
1960	503.7	6,142.2	40.9	8,871.8	15,013.9	1,086,1	12.2	7.2	20,408	2.92	5.66
1961	520.1	5,922.3	40.4	8,734.6	14,656.9	1,052.7	12.1	7.2	20,792	2.83	5.60
1962	560.3	6,224.9	38.3	10,026.2	16,251.1	1,234.9	12.3	7.6	21,444	2.89	5.69
1963	590.5	6,265.1	36.8	10,739.8	17,004.9	1,262.2	11.8	7.4	23,102	2.88	5.69
1964	632.4	7,045.1	37.8	11,568.1	18,613.2	1,371.3	11.9	7.4	26,297	2.94	5.85
1965	684.9	7,434.4	34.9	13,847.4	21,281.8	1,622.9	11.7	7.6	27,178	3.11	6.13
1966	749.9	9,343.8	36.8	16,022.7	25,366.6	1,716.9	10.7	6.8	29,994	3.42	6.65
1967	793.5	10,203.5	38.2	16,528.8	26,732.3	2,016.4	12.2	7.5	31,238	3.38	6.73
1968	865.7	12,266.	37.2	20,724.9	32,991.7	2,341.1	11.3	7.1	34,199	3.83	7.66
1969	932.3	13,017.7	36.3	22,852.6	35,870.4	2,551.2	11.2	7.1	37,462	4.10	--
1970	976.7	13,877.3	34.9	25,890.4	39,768.0	2,584.1	10.0	6.5	42,593	4.10	8.40

SOURCE: GNP - Economic Report of the President, 1971; Imports for Consumption, Duties Collected, Imports for Consumption as a Percentage of GNP, and Ratio of Imports for Consumption to Output Component of GNP - United States Tariff Commission Economics Division; Exports - U.S., Department of Commerce, Bureau of International Commerce, Statistical Reports, Total Export and Import Trade of the U.S., Part 3, No. 62-11 for 1939 through 1959, and Overseas Business Reports, OBR 71-009, February, 1971, Table 1 for 1960 through 1970, and Statistical Abstract of the United States, 1945 for 1931.

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